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Select Committee on Pensions

Final Report
1982

Second Session, Thirty-Second Parliament
31 Elizabeth II



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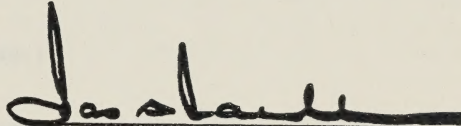
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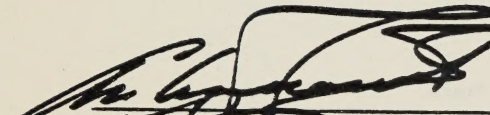
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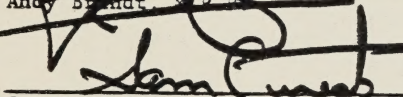
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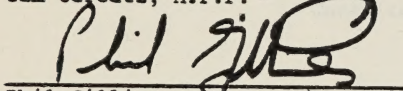
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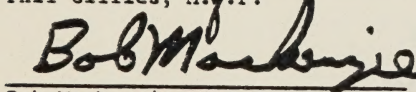
Your Select Committee on Pensions has the honour to present
its final report, and commends it to the House.

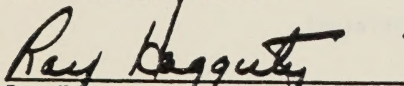

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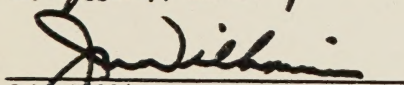

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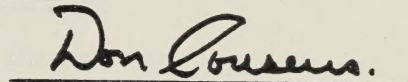

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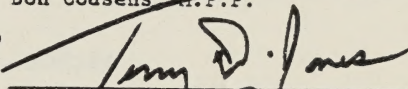

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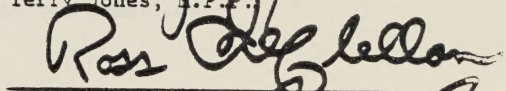

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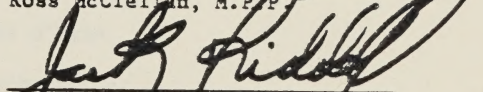

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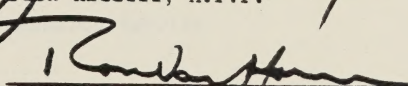

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JOHN WILLIAMS, Q.C., M.P.P., Vice-Chairman

ANDY BRANDT, M.P.P.

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RON VAN HORNE, M.P.P.

DAVID PETERSON, M.P.P.

(July 1981-September 1981)

HERBERT EPP, M.P.P.

(July 1981-September 1981)

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Clerk of the Committee

J. W. BENTLEY

Consultant to the Committee

JAMES O'MARA

Research Officer

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ACKNOWLEDGEMENTS

The Select Committee is pleased to record its appreciation to those who assisted it throughout its task.

The Committee could not have functioned as it did without its excellent staff. The Select Committee was particularly pleased that Wells Bentley, Ontario's Superintendent of Pensions, accepted the Committee's invitation to serve as its consultant. Mr. Bentley's contribution was invaluable in making available to the Committee his formidable expertise in the pension field without attempting to direct the Committee's thinking. Rick Jennings of the Legislative Research Service did superlative work as Research Officer during the Committee's initial deliberations. When Mr. Jennings left the employ of the Assembly the difficult task of taking over the Committee's research duties in mid-stream was handled expertly by Dr. James O'Mara of the Legislative Research Service. Miss Elaine Wiggins and Ms. Gayle Campbell of the Legislative Research Service provided invaluable support for Dr. O'Mara's work on the Committee. The Committee's proceedings were administered in exemplary fashion by the Clerk of the Committee, Dr. Graham White. Dr. White was ably assisted by Ms. Diana Von Bommel and Mr. Todd Decker of the University of Waterloo.

A number of civil servants gave freely of their time and knowledge in aiding the Committee. The Committee wishes to thank, in particular, Mr. David Stouffer and Mr. John Ilkiw of the Pension Policy Unit of the Ministry of Treasury and Economics, and Miss Elizabeth Aboud of the Civil Service Commission.

The Committee was the beneficiary of much thoughtful advice and opinion from the many persons who appeared before it and who submitted written material. The Committee is appreciative of the high quality of the presentations made to it, and the interest taken in its work by private individuals, trade unions, employee organizations, businesses and employer groups, social service agencies, retirees' organizations, and other community groups. Appendix 8 lists the individuals and organizations which have been so helpful to the Committee.

The Select Committee would like to have acknowledged the cooperation of the Government of Canada. Unfortunately the Committee cannot do so because the Minister of Health and Welfare, the Honourable Monique Bégin, refused the Committee's invitation to discuss pension reform. The Committee found this attitude of the federal Minister most unfortunate, particularly because matters of income replacement are a shared federal-provincial responsibility.

TABLE OF CONTENTS

| | |
|--|----|
| INTRODUCTION..... | 1 |
| GOVERNMENT RETIREMENT INCOME PROGRAMMES..... | 3 |
| Government Retirement Income Programmes: | |
| General Recommendations (R1-R5)..... | 5 |
| Effectiveness of Government Programmes: | |
| Adequacy (R6-R12)..... | 7 |
| Effectiveness of Government Programmes: | |
| Inequities (R13-R14)..... | 10 |
| The Role of Ontario (R15-R18)..... | 11 |
| Amendments to Government Programmes: | |
| Old Age Security (R19)..... | 13 |
| Amendments to Government Programmes: | |
| Guaranteed Income Supplement (R20)..... | 14 |
| Amendments to Government Programmes: | |
| Guaranteed Annual Income System (R21-R23)..... | 14 |
| ONTARIO AND THE CANADA PENSION PLAN..... | 16 |
| Canada Pension Plan Funding (R24-R29)..... | 19 |
| CPP Investment (R30)..... | 22 |
| Benefit Features (R31-R39)..... | 23 |
| EMPLOYMENT PENSION PLANS..... | 28 |
| Coverage: The Mandatory Retirement Savings Plan (R40)... | 32 |
| Portability and Vesting (R41-R42)..... | 32 |
| Locking-in and Rights on Termination (R43-R51)..... | 33 |
| Central Pension Agency (R52)..... | 36 |
| Survivor Benefits (R53-R54)..... | 37 |
| Integration (R55-R57)..... | 39 |
| Funding..... | 41 |
| Funding: Actuarial Funding Methods | |
| and Assumptions (R58-R60)..... | 42 |
| Funding: Actuarial Valuations (R61-R67)..... | 43 |

| | |
|---|----|
| Funding: Solvency Requirements (R68-R72)..... | 46 |
| Funding: Funding Post-Retirement Adjustments (R73)..... | 48 |
| Plan Wind-up (R74-R75)..... | 48 |
| Plan Wind-up: Priorities (R76-R81)..... | 51 |
| Investment (R82)..... | 55 |
| Disclosure (R83)..... | 56 |
| Audit (R84-R85)..... | 56 |
| Pension Commission of Ontario (R86-R89)..... | 58 |
| Further Pension Benefits Act Amendments: Multi-Employer Plans (R90-R92)..... | 60 |
| Further Pension Benefits Act Amendments: Representation of Plan Members (R93)..... | 64 |
| Further Pension Benefits Act Amendments: Obligations of Trustees (R94)..... | 64 |
| Further Pension Benefits Act Amendments: Garnishment of Benefits (R95)..... | 65 |
| Further Pension Benefits Act Amendments: Effective Date of Proposed Legislation (R96)..... | 65 |
| Relationship with Mandatory Plan (R97-R107)..... | 65 |
| ONTARIO PUBLIC SECTOR EMPLOYMENT PENSION PLANS..... | 69 |
| General Principles (R108-R112)..... | 70 |
| Funding (R113-R114)..... | 72 |
| Funding: Actuarial Valuations (R115)..... | 74 |
| Funding of Indexing (R116-R120)..... | 76 |
| Investment (R121)..... | 78 |
| Cost (R122-R128)..... | 80 |
| Special Issues (R129-R133)..... | 85 |
| SPECIAL RETIREMENT CONCERNS..... | 88 |
| Inflation Protection..... | 88 |
| Inflation Protection: Government Programmes (R134-R135)..... | 89 |

| | |
|--|-----|
| Inflation Protection: | |
| Inflation Tax Credit (R136-R137)..... | 90 |
| Inflation Protection: | |
| Employment Pensions (R138-R139)..... | 90 |
| Retirement Age (R140-R144)..... | 92 |
| Women and Pensions (R145-R147)..... | 94 |
| Government Regulation: Taxation (R148-R156)..... | 96 |
| Constitutional Issues (R157-R163)..... | 99 |
| <u>Appendix 1:</u> PENSION BENEFITS ACT CHANGES..... | 101 |
| <u>Appendix 2:</u> ROYAL COMMISSION RECOMMENDATIONS DEFERRED OR VARIED..... | 105 |
| <u>Appendix 3:</u> INDEX..... | 118 |
| <u>Appendix 4:</u> GLOSSARY OF PENSION TERMS..... | 126 |
| <u>Appendix 5:</u> THE FUND C APPROACH..... | 149 |
| <u>Appendix 6:</u> DISSENTING OPINION OF JOHN WILLIAMS, M.P.P.; TERRY JONES, M.P.P.; AND ANDY BRANDT, M.P.P.: FROM THE SELECT COMMITTEE'S INTERIM REPORT..... | 151 |
| <u>Appendix 7:</u> DISSENTING OPINION OF NEW DEMOCRATIC PARTY MEMBERS ON THE SELECT COMMITTEE..... | 153 |
| <u>Appendix 8:</u> GROUPS, ORGANIZATIONS AND INDIVIDUALS APPEARING BEFORE THE SELECT COMMITTEE..... | 163 |

INTRODUCTION

The Select Committee on Pensions was established by Order of the Assembly on July 2, 1981; amended December 18, 1981:

Ordered, That a Select Committee of this House be appointed to inquire into and review the recommendations of the Report of the Royal Commission on the Status of Pensions in Ontario, and make recommendations as appropriate; And that the Committee have power to retain such staff as it deems necessary, subject to the budgetary approval of the Board of Internal Economy; And that the Committee have the power to send for persons, papers and things, and to examine witnesses under oath; And the Assembly doth command and compel attendance before the said Committee of such persons and the production of such papers and things as the Committee may deem necessary for any of its proceedings and deliberations, for which the Honourable the Speaker may issue his warrant; And that the Committee be composed of 12 members, to be named on motion before the House adjourns for the summer; And that the Committee have authority to sit during recesses and intervals between sessions.

The Committee's task was to review the Report of the Royal Commission on the Status of Pensions in Ontario and to make recommendations about the Commission's 163 proposals. The Committee advertised for public submissions to add to its deliberations on the Royal Commission.

On August 4th the Committee began five weeks of hearings. The initial two weeks were devoted to a review of, and briefings on, the Royal Commission Report. The Committee also heard

submissions by the staff of the Pension Commission of Ontario, the Ministry of the Treasury, and the Civil Service Commission. In addition, the Committee was briefed on technical matters relevant to the understanding of the Royal Commission Report.

The next three weeks were devoted to hearing submissions in response to the Royal Commission's Recommendations. The emphasis during this initial period was to hear briefs from groups representing a wide cross section of community interests. Representatives of labour, large corporations, women, small businesses, pensioners, and the organizations primarily affected by the Royal Commission's Recommendations, such as life insurance companies, trust companies and actuaries, appeared before the Committee.

The Committee did not complete its deliberations during the summer and fall of 1981. It reconvened for additional hearings on January 4, 1982. These hearings continued until the end of January, 1982. Like the earlier Committee sessions those during January involved hearing pension experts and representatives from the community.

The Committee issued an Interim Report after its first session of hearings. The Report was tabled as Sessional Paper No. 200 on November 3, 1981. It contained 18 recommendations by the Select Committee, which were subsequently adopted upon a motion in the House on December 10, 1981. For the convenience of readers, this Report, like the Interim Report, is organized along the same lines as the Summary Report of the Royal Commission (Vol. 10). Sections here correspond to the chapters and contents of the Summary Report. Three abbreviations appear beside recommendations. RCPR indicates a Royal Commission on Pensions recommendation that the Select Committee has adopted verbatim. SCPR indicates a recommendation made by the Select Committee on Pensions. An asterisk (*) indicates recommendations on which NDP members of the Committee, Bob Mackenzie and Ross McClellan, have offered dissent.

GOVERNMENT RETIREMENT INCOME PROGRAMMES

Government retirement income programmes embrace a number of income replacement plans that are provided on a nearly universal basis and which are not directly related to pre-retirement earnings. Old Age Security (OAS) and Guaranteed Income Supplement (GIS) are two federal government components of income programmes for the aged. Guaranteed Annual Income System (GAINS) is an Ontario supplementary plan. OAS is provided to all those who are 65 and over, regardless of retirement income. GIS and GAINS are income-tested.

The Royal Commission recognized, as did others before and since the Royal Commission, that many of this province's and this country's elderly look to government retirement programmes as their sole source of income. Addressing the urgent needs of the elderly poor was the Royal Commission's first task and it is the first issue to which the Select Committee turns its attention in this report.

There are, it must be acknowledged, many different viewpoints on how best to meet the needs of the elderly poor through government retirement income programmes. One, among the many views, is to supply benefits on a universal basis. That particular approach has the advantage of excluding no one who might need help. Another approach involves selectivity in the provision of benefits. It recognizes that government resources are scarce and that the resources should be directed towards those whose needs are greatest and most urgent. Objections to this second approach often arise because to act selectively in apportioning government resources for programmes such as income replacement usually requires some form of income or means-testing. Those who object to means-testing argue that such procedures must adopt arbitrary standards, that they can be unfair, and that they require

recipients of benefits to prove need. Those who support the tests note the necessity of benchmarks to insure that those who need help receive it and that the benefits of those in need are not diminished by payments to persons who require no help by any objective standard.

Other points of contention have arisen. There are matters in dispute related to how and when changes to help the elderly may be implemented. There is general acknowledgement of need. But there are arguments to be made about implementing programmes in such a way as to not create excessive burdens on government, the community, and those who are currently in need. GIS and GAINS have come in for some attention. It has been observed that GIS was implemented as a temporary programme, but that it now appears to be permanent. This fact speaks of difficulties in OAS. Solutions to income problems involving GIS treat the manifestation, not the real difficulty. GAINS makes up the shortfall between the income levels provided by OAS and GIS and what the province deems as minimally acceptable. But if OAS and GIS provide levels of income that are too low, an extra burden must be carried by Ontario through GAINS. Again, the use of GAINS as a solution ignores and might mask income difficulties arising from other programmes.

On the other side of this issue of how and when to implement programmes is the recognition, expressed earlier by the Select Committee, that the needs of the elderly are urgent and should not become the subject of a dispute between different levels of government. The welfare of this province's and this country's aged cannot and should not wait upon decisions about how to apportion costs between governments.

The Select Committee has considered the many issues related to government retirement income programmes and it makes the following recommendations with respect to the proposals already made by the Royal Commission on the Status of Pensions.

Government Retirement Income Programmes

General Recommendations

1. The Royal Commission recognized the need to guarantee a minimum income to those who are 65 and over. The Select Committee agrees and endorses the recommendation that:

RCPR

The governments of Canada and Ontario should continue to guarantee a minimum level of income to all persons 65 and over sufficient to provide an adequate amount of income to allow them to participate in Canadian society.

2. The Select Committee endorses the Royal Commission's second recommendation that:

RCPR

The income provided through OAS, GIS, and CPP should continue to be protected against inflation.

3. The Royal Commission recommended that the Government of Ontario should resist increasing universal benefits. The Select Committee agrees that no new universal programmes should be created now. But providing income and services for those age 65 and over in this province requires some universal programmes and some programmes designed specifically for those in need. The Select Committee supports both approaches as necessary and recommends that:

SCPR

*

The Government of Ontario should resist providing any new universal income and service programmes.

4. The Royal Commission recommended that an approach should be adopted for all social assistance in Ontario to reflect

RCPR - Royal Commission on Pensions Recommendation verbatim

SCPR - Select Committee on Pensions Recommendation

* - See dissenting opinion of B. Mackenzie and R. McClellan

actual rather than assumed need. The proposal speaks to the issue of addressing the problems of the aged selectively and of supplying benefits first to those who are most in need. The Select Committee, however, could not endorse the recommendation as written because of the chance that such a proposal could be interpreted as a possible curtailment of existing programmes.

The Select Committee recommends that:

SCPR

*

Social programmes in Ontario for those who are age 65 and over should continue to provide assistance on a priority basis for those who are in need.

5. In its fifth recommendation the Royal Commission suggested that 65 should remain as the age of eligibility for the provision of retirement income or services, on the basis of need. The recommendation added that any future change in eligibility age should be made in concert with all government retirement income programmes. The Select Committee endorses the proposal in part, and notes that 65 should be maintained as the age of eligibility for retirement income programmes. But the Select Committee distinguishes this from any suggestion, at this point, that 65 should be regarded as a mandatory retirement age. The Select Committee's recommendation is that:

SCPR

*

The Government of Ontario should maintain the age of 65 as the age at which persons may become eligible for retirement income or services.

Readers are directed to also see recommendations 140 to 144 later in this report.

Effectiveness of Government Programmes

Adequacy

The Royal Commission noted when it presented its findings that income provision for single individuals was inadequate. Conditions during the interim have not changed. It is widely acknowledged that single, aged individuals are often those who are most in need, particularly if they rely more or less exclusively upon government retirement programmes for income. The Royal Commission found that income for couples was adequate. Evidence presented to the Select Committee has indicated that this may not always be the case. The situations of single individuals and of couples suggest the need for an income standard of adequacy. The Select Committee recognizes the need for a standard as a principle and it recognizes, too, that the income needs of single individuals are greater than half of those for a couple, because some living costs are the same for single individuals and for couples.

6. In its sixth recommendation the Royal Commission enunciated the need for an income standard of adequacy. The Select Committee endorses the Royal Commission's statement that:

RCPR

A well-defined standard should be adopted to determine the adequacy of income levels from all government income programmes, whether or not the programmes provide income in retirement. The standard suitable for determining the adequacy of levels of income should apply to all types of beneficiaries and should reflect economic conditions affecting all the people of Ontario at the time the standard is applied.

7. The Royal Commission noted that income adequacy should be assessed in terms of after-tax dollars. The concept frequently referred to in this context is "available income"; which is to say income available for the purchase of goods and services after taxes, if any, are paid. The Select Committee endorses the Royal Commission's suggestion and recommends the Commission's proposal that:

RCPR

Adequacy of income should be assessed in terms of "available income"; that is, after-tax dollars plus the value of other additional benefits. "Available income" in retirement is the total income dollars received from all government programmes less income tax (if any) calculated using age 65 exemptions and other applicable exemptions and deductions, plus the value of Ontario tax credits.

8. As noted above, the Royal Commission recognized the needs of single, aged individuals. The Royal Commission was aware, just as the Select Committee is, that the income needs for a single person are greater than half those for a couple. The Royal Commission suggested that the minimum adequate income for single individuals should be greater than half and it recommended that the level be one-sixth more than half the amount for couples. The Select Committee endorses this principle. In setting a minimum level for adequate income single individuals should have more than half that for couples. But the Select Committee differs with the Royal Commission on the amount and it recommends:

SCPR

In setting a minimum level for adequate income for single individuals age 65 and over the principle should be that such persons require an amount not less than 60% of that for married couples age 65 and over.

9. The Royal Commission suggested an income standard linked to the minimum wage. The standard would be used to assess the adequacy of available income for couples and for individuals. The Select Committee agrees about the need for a standard, but it differs from the Royal Commission on the standard to employ. The Select Committee recommends that:

SCPR

The Government of Ontario should consider a standard for adequate income linked to the Average Industrial Wage (AIW). The standard for single individuals age 65 and over should be not less than 60% of that for married couples age 65 and over.

The Select Committee could not, however, recommend a specific percentage of the Average Industrial Wage to be used as a standard. The percentage would have to be determined by studies of the income needs of the elderly and would have to reflect economic conditions affecting all of the people of Ontario at the time the standard is applied.

The Select Committee's choice of the AIW as a standard was a result of several considerations. The AIW supplies a meaningful measure of current earnings, not just in Ontario but across the country. The AIW is already used in connection with the Canada Pension Plan. And the AIW is flexible and is itself adjusted regularly, mirroring economic conditions as they exist.

10. The Royal Commission spoke in its second recommendation of the need to protect retirement income programmes against the effects of inflation. In its tenth recommendation the Royal Commission suggested a means for protecting the level of income established as adequate from the effects of inflation. The means would involve the use, in part, of the

Consumer Price Index (CPI). The Select Committee endorses that part of the Royal Commission's proposal and the Committee recommends that:

SCPR

The Consumer Price Index should be used annually to monitor the deemed adequate income level established as a result of recommendation 9.

11. In recommendation eleven the Royal Commission suggested that net replacement ratios for those in lower income ranges should be greater than for those in higher income ranges. The Select Committee endorses the principle and recommends adoption of the Royal Commission's proposal that:

RCPR

Net replacement ratios for those in lower income ranges should be greater than for those in higher income ranges.

12. The Select Committee also endorses the Royal Commission's twelfth proposal and recommends that:

RCPR

Assistance to low-income persons aged 65 and over should be through money payments where feasible rather than through increased services.

Inequities

The Royal Commission found that many programmes did protect beneficiaries from the effects of inflation. But the Commission also found some inequities and it made the following two recommendations. The Select Committee has varied the first and could not endorse the second. In the case of the first the Select Committee recognized the importance of considering all

taxable income in the calculation of income replacement benefits payable under government retirement income programmes. But the Royal Commission cited benefit programmes which provide non-taxable income. The Select Committee, therefore, accepted that part of the recommendation pertaining to taxable income, but rejected those parts of the recommendation detailing income to be considered which is not taxable. In the case of the second recommendation under this section concerning inequities the Select Committee could not accept it as written. The recommendation would have shifted a responsibility for benefits without necessarily solving any problems which might exist. The Select Committee recommends that:

SCPR

13. In determining eligibility for government income-tested programmes and the amount of income provided, all taxable income should be taken into account.

SCPR

14. The Government of Ontario should not seek the phasing-out of the Spouse's Allowance programme.

The Role of Ontario

The Royal Commission and the Select Committee both realized that much of the administration of income programmes falls within the jurisdiction of the federal government. But there are some matters which are the exclusive concern of Ontario. Any recommendations should take this latter fact into account and provide some guidance for programmes offered by the province. The Select Committee, therefore, makes the following recommendations with respect to the Royal Commission's proposals 15 to 18.

15. The Select Committee endorses the Royal Commission's proposal in principle, but must make the recommendation subject to its own proposals. The Select Committee recommends that:

SCPR

*

The Government of Ontario should give effect to the recommendations of the Select Committee by amending its own income-tested programmes, tax system, and programmes providing benefits for the elderly.

16. The Select Committee endorses the Royal Commission's recommendation in principle, but it asserts that programmes now in place providing free or reduced cost services would not be affected by this recommendation. The proposal is meant to apply only to services not yet offered.

SCPR

*

The Government of Ontario should resist any attempt to extend new services for those 65 or over, free or at reduced cost, on a universal basis, and move toward the provision of any new services on the basis of need only.

17. The Select Committee could not endorse the Royal Commission's proposal in its entirety. The Committee's rejection of the proposal rests on its objection to an Inflation Tax Credit as a means for providing protection for pensions against inflation. The Select Committee recommends that:

SCPR

*

No steps should be taken to broaden any existing Ontario programmes, such as the Ontario Tax Credits, or to adopt any new assistance programmes based on chronological age alone unless eligibility for these is based on real need and not on an assumed need or a need artificially created by ignoring payments actually available to the recipient to satisfy need.

Elsewhere in this report the Select Committee will outline its proposal which involves the use of the excess interest approach to protect pensions. See also the Select Committee's comments about recommendation 4.

18. The Select Committee endorses the principle of the Royal Commission recommendation subject to the qualification that income considered for an assessment of need be taxable income. Recommendation 13 above outlines the Select Committee's views in this matter. The Select Committee recommends that:

SCPR

Programmes providing benefits on the basis of need, including all income-tested programmes and income-tested tax exemptions and credits, should take into account all taxable income to eliminate double payments.

Amendments to Government Programmes

The Select Committee made recommendations with respect to government programmes in its Interim Report. In this section these will simply be reiterated. The thrust of these recommendations is to remove some inequities in programmes and to address certain needs of Ontario's elderly.

Old Age Security

19. There have been many suggestions over the years to tax back OAS payments of Canadians in upper income brackets. The Royal Commission proposed a 100% tax back for those whose income is \$30,000 and above. The Select Committee, however, is not convinced that such measures, proposed in the past and proposed by the Royal Commission, necessarily alleviate

inequities and there is always the danger of creating unintentional hardship. The Select Committee, therefore, recommends that:

SCPR

*

No measures should be taken to tax back OAS payments, as the Royal Commission proposed, of those whose net taxable income is \$30,000 or more.

Guaranteed Income Supplement

20. This particular proposal was the Select Committee's first recommendation in the Interim Report. The recommendation has been modified from the Interim Report to change the wording "about 60%" to "not less than 60%". The Select Committee recommends that:

SCPR

The Government of Ontario should by immediate negotiation seek to increase basic payments levels of the Guaranteed Income Supplement to remedy any inadequacy in the level of available income received by single persons and to implement the recommended ratio between single and married persons without delay so that the single person receives not less than 60% of the amount that a married couple would receive.

Guaranteed Annual Income System

21. The Royal Commission's proposal formed the basis for the Select Committee's second interim recommendation that:

SCPR

Until changes can be made to increase the GIS as recommended, the Government of Ontario should increase without delay the payment for GAINS to bring single persons up to the adequacy level of "available income" recommended for the year in which the increase is made.

There was a dissenting opinion expressed about this proposal in the Select Committee's Interim Report, which dissent the authors reaffirm and which is set out as Appendix 6 to this report.

22. The Select Committee endorses the principle of this Royal Commission proposal as being consistent with recommendations made elsewhere in this report and recommends this amended proposal that:

SCPR

The Government of Ontario should adopt and implement in all programmes the principle that single persons aged 65 and over need not less than 60% of the income required by a married couple.

23. The Select Committee, having placed responsibilities on the GAINS programme, endorses the Royal Commission's proposal and recommends adoption of the proposal that:

RCPR

*

Except for changes in the level of benefits, maintaining a proper single to married couple ratio, and in assessing all income to determine benefits, the Government of Ontario should continue to operate GAINS on the principles now embodied in the legislation, and GAINS payments should continue to be financed from the Consolidated Revenue Fund.

ONTARIO AND THE CANADA PENSION PLAN

The Canada Pension Plan (CPP) was a major concern for the Royal Commission on the Status of Pensions and it is an important topic for the Select Committee. CPP is of concern both as a pension plan, per se, and as an instrument for social welfare, which the plan has become since its inception in 1965.

CPP was and remains funded on a pay-as-you-go basis. So in theory current contributions pay present benefits. But the contribution rate of 3.6% has produced a surplus, in large measure because the number of contributors to the plan is so much greater than the number of beneficiaries. The current annual difference between contributions and benefits is approximately \$2 billion and that has helped to produce an overall surplus of funds today of approximately \$19 billion. That excess of funds makes CPP, together with the Quebec Pension Plan (QPP), one of the largest pools of capital in the country.

The surplus of contributions over benefits creates several concerns. At the moment the pool of capital is \$19 billion and is growing. The money that the pool represents consists of funds that might have found their way, in other circumstances, into the capital market to finance private sector enterprise. As it is, CPP funds are used for governmental purposes. These monies are, for government, a convenient and relatively less expensive pool from which to borrow. The last point, especially, means that taxpayers are saved the extra burden of costs of governments borrowing in the open market. But critics charge that government borrowing of CPP pension fund surpluses creates several difficulties. First, the money does not earn the interest that it might if it was lent in the open market. That means investment return on CPP pension fund capital is lower than it might be. Secondly, providing government with cheap monies does not discipline spending in the ways that might be achieved if

government had to go to the market to borrow. The Royal Commission, among others, spoke of the existence of inexpensive sources of money from pension funds as fostering fiscal irresponsibility.

One way in which to overcome some of the investment concerns voiced by critics of CPP would be to dedicate a portion of its funds to the private market. Quebec's Caisse de Dépôt et Placement invests some of the QPP's funds in private securities, although recently the amount has been declining. But other commentators have been critical of the Caisse's activities, arguing that it uses pension funds to carry provincial government investment strategies into effect. Concerns have been raised about what appears to be a new way by government to control business activity within the province of Quebec.

The current borrowings from CPP are, themselves, the subject of a serious debate. One side argues that the debts accumulated by the provinces are so massive that there is no possibility of repayment under current circumstances. The debts will have to be either forgiven or forgotten, with the attendant loss of billions of dollars of CPP contributions. The other side notes that as yet no province is in default of payment, no debts are yet due, and when debts come due it is well within accepted practice for government to refinance the debt.

All of this debate is meaningful only so long as a surplus of CPP funds continues to exist. It is estimated, however, that Canada will soon approach a cross-over point in 1986 when contributions to CPP become less than benefits paid out. With no change in contribution rates the surplus would soon disappear and debts would mount. At present the future liability of the CPP is \$262 billion, so the debts could be expected to be very large with no change in funding arrangements.

To overcome CPP funding problems various solutions have been suggested. Among the solutions is a suggestion to increase contribution rates substantially to 8% or 9% by the year 2030 from their present 3.6%. The difficulty with the solutions is that their outcomes are very hard to predict. With different demographic, economic, and contribution rate assumptions the CPP fund could grow by the year 2050 to \$200 billion, or shrink to a negative indebtedness level of \$1,706 billion.¹ The difference between the extremes is almost \$2 trillion and neither one of the extremes would be acceptable in a healthily functioning economy.

There are issues over and above those related to the funding of CPP. Some critics of CPP argue that it reaches too few people because it remains tied to providing pensions for those who earn employment incomes only. The critics note that the distribution of benefits could become more equitable if unpaid workers were given an opportunity to participate in the plan. Equity would be enhanced, too, if CPP recognized that women usually must drop out of the paid labour force for a time to raise children. In recognition of the necessity, CPP would have to institute provisions to prevent women from being unfairly penalized in their later benefits for those years when their contributions were low or non-existent.

On the opposite side of this issue others argue that to extend CPP in such a manner would increase costs enormously. Contributions would have to be increased if the fund was to remain solvent. And with CPP contributions increased, money that might have been used for private consumption would flow into a government pool, with the attendant problems already outlined.

¹Frank T. Denton, A. Leslie Robb, and Byron G. Spencer, The Future Financing of the Canada and Quebec Pension Plans: Some Alternative Possibilities, an Economic Council of Canada Study (Ottawa: 1980), Table 2.

The debate in this last area is one in which different ideas about the central purpose of CPP figures very largely. On the one hand there are those who see CPP as a tool to achieve social-economic goals such as the redistribution of wealth and the provision of benefits in old age to those who might otherwise suffer from inadequate income. Others note that CPP, as it is presently constituted, does nothing to overcome the difficulty of an inequitable distribution of wealth. CPP perpetuates problems in old age, rather than relieving them. These critics argue for CPP remaining as a basic pension, with the private sector providing the bulk of pension benefits. CPP should supply, in effect, a "topping-up" benefit.

Canada Pension Plan Funding

There are a number of different courses of action to choose from in making recommendations with respect to funding. One is to continue to fund at the present contribution rate. That choice could result in the exhaustion of the fund and a very large deficit within the next twenty years. Full funding of CPP would require very much larger contribution rates than at present and could result in an accumulation of almost \$9 trillion in capital by the year 2030. A third option is to choose pay-as-you-go-funding, raising contribution rates just enough to cover current expenses. The surplus fund would run down, but would not be totally eliminated. Contribution rates would peak at just over 9% in 2030 and would decline thereafter.

The Royal Commission chose the third option and its proposals reflect that course. There are six recommendations on the topic of funding and a majority of the Select Committee endorses all six.

The intent of the Royal Commission's proposals is to improve and secure the financial basis of CPP. There is no possibility of CPP becoming bankrupt and such discussion, as the Royal

Commission pointed out in its report, is fanciful speculation. But there is a possibility that contribution rates might have to climb to unacceptably high levels if no steps are taken now. That was the concern of the Royal Commission and it is the concern of the Select Committee. Contribution levels will have to go up, as was planned when CPP began. But with these proposals of the Royal Commission, which the Select Committee endorses, the rise in contribution rates for employees and employers should not be excessive.

24. The Select Committee proposed in its Interim Report, as recommendation 3, that:

RCPR

The Canada Pension Plan should be funded on a pay-as-you-go basis, with a contingency fund equal to twice the estimated benefit and administrative cost payout three years in advance.

The Committee confirms its earlier recommendation.

25. The Select Committee endorses the Royal Commission's recommendation that:

RCPR

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The existing combined contribution rate of 3.6% should continue unchanged until such time as the existing fund is reduced to the level required to satisfy twice the year's benefit and administrative cost pay-out three years in advance.

26. The Select Committee endorses the Royal Commission's recommendation that:

RCPR

When an increase in contribution rates on a pay-as-you-go basis is required there should be a gradual phasing-in of increases to approximate pay-as-you-go rates by setting contribution rates six

years in advance of such changes, to maintain a contingency fund at all times equal to twice the year's benefit and administrative cost pay-out three years in advance.

27. The Select Committee endorses the Royal Commission's recommendation that:

RCPR

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Until the existing fund is reduced to the level required by the recommendations, the CPP fund should be operated on the Fund C basis outlined in Statutory Actuarial Report No. 6 for the CPP, with actual payment of interest on borrowing to be made after excess funds above the level required to satisfy twice the year's benefit and administrative cost pay-out three years in advance are no longer available for lending to the provinces.

Readers may refer to the discussion of the Fund C proposal in Appendix 6 of this report.

28. The Select Committee endorses the Royal Commission's recommendation that:

RCPR

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The CPP fund should be operated on the Fund C basis so that no repayment of capital of the fund is required from the provinces except on a call basis (subject to investment of the capital as required in recommendation 30) to satisfy the purposes of the contingency fund.

29. The Select Committee endorses the Royal Commission's recommendation that:

There should be no increases to the benefit formula under the CPP without an increase in contribution rates on a pay-as-you-go basis with a contingency fund to satisfy twice the year's benefit and administrative cost pay-out three years in advance, to cover the full cost of such increased benefits without regard to any excess funds on hand resulting from existing funding procedures.

CPP Investment

The Royal Commission on the Status of Pensions made one proposal on the subject of CPP investment. The proposal was to earn a greater return, although no suggestion was made to place the CPP's funds in the private market. The proposal was to place funds in tangible marketable assets of provincial agencies and to require repayment of borrowed funds. The Select Committee endorses the Royal Commission's proposal and recommends that:

RCPR

30. The investment structure of the CPP should be altered to ensure the receipt of market rates of interest on the capital of the fund and to ensure a control of investment through links with normal market practices, by adopting the following procedures:
 - a) upon maturity of existing provincial undertakings, commencing in 1986, each obligation should be replaced with a twenty-year negotiable bond with a fixed maturity date issued by a provincial Crown corporation, guaranteed by the province and accompanied by a certificate of the treasurer of the province that the proceeds of such bonds are being used,
 - (i) to invest in fixed assets of the provincial Crown corporation, or

- (ii) to refinance outstanding debt of the provincial Crown corporation originally used to finance acquisition of fixed assets;
- b) the interest rate on such new securities should be at the market rate determined by the average rate prevailing in the twenty preceding trading days on outstanding long-term debt, issued by or guaranteed by the province, denominated in Canadian dollars; or struck by reference to
 - (i) the average of interest rates on all outstanding debt issued or guaranteed by participating provinces, weighted according to CPP contributions in the year of calculation, or
 - (ii) the average interest rate on outstanding debt issued or guaranteed by the province concerned, with the treasurer of the province having the right to elect between (i) and (ii);
- c) all funds declined by the provinces in any month should be invested in 90-day treasury bills of the province concerned, or of the federal government if no provincial bills are available, until such time as the province takes up the funds against the securities of a provincial Crown corporation as stipulated in a).

Benefit Features

Two facets of the discussion of benefit features must be clarified first before this discussion of benefits can begin. Issues may be divided into two areas: those of coverage and those of benefit payments. The issues are distinct and should be treated in that manner.

Coverage issues concern matters related to questions about who will or will not be eligible for a pension. The Royal Commission proposed no change from current coverage levels. And one Royal Commission recommendation suggests no future extension of benefit coverage should be considered by Ontario.

Benefit payment issues concern questions about how much people will or will not receive as a result of participation in CPP. In this area the Royal Commission had several proposals to increase benefits for selected groups, among them women and surviving spouses. The Royal Commission also proposed a continuation of indexing provisions to enhance benefits paid to plan members. The Commission recommended, too, an easing of appeal procedures and that there be no return to a means or income-test.

A majority of the Select Committee endorses the recommendations of the Royal Commission on the subject of benefits and coverage. The benefit proposals will improve pension provisions for women who must drop out of the paid workforce to raise children and for surviving spouses. Coverage under CPP should remain at current levels for the time being. But the Select Committee recognizes that in the not too distant future it may become necessary to extend CPP coverage or mandate some other plans, particularly if the reforms proposed in this report do not overcome the difficulties to which they are addressed as quickly and as completely as they should.

31. The Select Committee endorses the Royal Commission's proposal and recommends the Commission's proposal that:

RCPR

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The Government of Ontario should support the continuation of the CPP for the present on a compulsory and "earnings-related" basis and resist any extension of coverage to unpaid workers.

32. The child-rearing drop out provision of CPP was recommended by the Royal Commission and the Select Committee endorses the Commission's proposal that:

RCPR

The Government of Ontario should approve the amendment of the CPP for the child-rearing dropout provision as now legislated, to take effect without delay.

33. Elderly surviving spouses are a group poorly provided for in most pension plans. The Royal Commission recognized that and proposed an enhanced survivor benefit payment under CPP. The Select Committee concurs with the Royal Commission's proposal and endorses the Commission's recommendation that:

RCPR

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Benefits payable to the survivor of a deceased contributor in receipt of retirement benefits should be not less than 60% of the pension benefit of the deceased contributor, and the Government of Ontario should resist any extension of the existing survivor benefits.

34. The Select Committee endorses the Royal Commission's proposal and recommends the Commission's proposal that:

RCPR

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The Government of Ontario should take no steps to extend the principle of credit-splitting upon dissolution of marriage to create a division of credits during marriage.

35. The Select Committee endorses the Royal Commission's proposal and recommends the Commission's proposal that:

RCPR

*

The Government of Ontario should resist any steps to increase the existing levels of retirement benefits and survivor benefits under the CPP, or to alter the existing goal of 25% of the Average Industrial Wage for those at the Yearly Maximum Pensionable Earnings (YMPE), and such benefits should continue to be financed by equal contributions by employer and employee.

36. The Select Committee endorses the Royal Commission's proposal and recommends the Commission's proposal that:

RCPR

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The earliest age of eligibility for CPP retirement benefits should continue to be age 65, with any future change to be only in concert with all government retirement income programmes.

37. The Royal Commission did not investigate appeal procedures at length, and in discussion of procedures (Vol. 5, pages 134-35) the Commission proposed a full appraisal at the time of the next CPP review. Nevertheless, the Royal Commission did recommend less complicated and time-consuming appeal procedures and the Select Committee endorses the Commission's proposal that:

RCPR

The Government of Ontario should consider amendments to the CPP to provide a more effective, less complicated, and less time-consuming procedure for appeals as to both contributions and benefits under the CPP.

- 38. On the matter of indexation the Select Committee endorses the Royal Commission's proposal that CPP benefits continue to be linked to increases in the Consumer Price Index (CPI). The Select Committee recommends adoption of the Commission's proposal that:

RCPR

All CPP benefits should continue to be based on earnings indexed to the Average Industrial Wage and, after payment commences, should be indexed as at present to the Consumer Price Index.

39. The Select Committee endorses the Royal Commission's proposal and recommends adoption of the proposal that:

RCPR

No earnings test for retirement benefits should be reinstated in the CPP while age for eligibility for retirement benefits remains at 65.

EMPLOYMENT PENSION PLANS

At one time employment pensions were thought of as rewards for long and faithful service. But now employment pensions are no longer thought of in those terms. Pensions are regarded as deferred wages, and from that premise concerning pensions flows a number of issues related to employment pensions.

One of the issues is vesting. Defined simply, vesting is an employee's right on termination to all or part of his or her accrued pension benefits. With only a very few exceptions, groups appearing before the Select Committee supported improved vesting provisions under Ontario legislation.

A related issue is locking-in. It pertains to the employee's right to the employer's contribution to his or her pension plan and any interest that might be generated by the funds credited to his or her name. If funds are locked-in the qualified employee may not withdraw or otherwise forfeit those funds. Furthermore, the qualified employee on termination must receive due credit for any interest those funds may have earned. It is usually argued that vesting and locking-in must be treated simultaneously. Without both provisions terminating employees could lose credits or funds that rightfully belong to them under the deferred wage concept. For that reason the Select Committee coupled recommendations about vesting with those concerning locking-in. The provisions are designed to ensure the security and value of benefits.

Vesting and locking-in provisions are also important considerations in another employment pension issue: portability. Again, the concern is to preserve the value of an employee's earned benefit when he or she terminates with one employer to work for another. Without some way of carrying credited service, employees must accept the possibility of losing and leaving behind earned pension monies when they change jobs or accept restrictions to their mobility in order to preserve pension benefits.

The Royal Commission concluded that portability of private pension plans was unworkable and could not be legislated. For that and other reasons the Royal Commission advocated a universal mandatory pension plan. The Select Committee, on the other hand, has seen examples of workable portability in the life insurance industry and the potential for vastly improved portability among multi-employer plans. The Select Committee has proposals of its own with regard to portability and these are contained later in this report.

Issues such as vesting, locking-in, and portability concern employees who have pensions or who have the right to qualify for employer pension coverage at some point in their employment career. The Royal Commission found that very large numbers of employees have no private pensions and have no expectation of employer pension coverage. The Royal Commission's estimate was that this last group might account for 60% of the work force. Other estimates have put the number of uncovered workers as high as 1.5 million persons in Ontario. It is argued that these are workers who, in their retirement years, would look to government programmes to provide all or most of their income.

The Royal Commission's perception that there were so many uncovered workers prompted its recommendation to create a mandatory provincial universal retirement savings plan, PURS. The plan, as proposed by the Royal Commission, would mandate coverage of workers in a money-purchase scheme. PURS would overcome current vesting and locking-in difficulties by making them both immediate and full. Portability would become workable because all employees in Ontario would be covered under the same plan and because vesting and locking-in would be immediate and full. Any pension earnings would be payable to an employee account, and the owner of the account would have some say as to how the money was invested.

Proponents of PURS argue that the Royal Commission's proposal has many advantages.

- It would be universal and mandated, so it would solve the coverage problem.
- It would be fully funded and therefore not create the risk of large intergenerational transfers to finance the plan in the future.
- Retirement income would be guaranteed because vesting and locking-in would be immediate and full and because PURS is a money-purchase plan.
- The plan's funds would be invested in the private sector.
- The plan would be designed to allow a degree of personal control and responsibility for retirement income.

Critics of PURS point out that it has a number of difficulties.

- It would take the plan 47 years to mature.
- It could be possible, under certain circumstances, for persons who earned the same number of pension credits to receive different pension benefits.
- The effect of PURS on existing employment pension plans, which may offer benefits equal to or better than those of PURS, would be uncertain.
- PURS would require additional saving for retirement income from some people whose current income is not adequate to support the added saving requirement of the plan.
- PURS would create additional payroll costs for small businesses and could

adversely affect those businesses.

- It is likely that PURS would only operate in Ontario, which could mean that it could discourage the movement of workers into and out of the province.
- PURS would duplicate many features of CPP and would add another layer of bureaucracy to the provision of pensions.

The coverage issue, to which PURS is addressed, is also contentious. Some estimates of coverage suggest many workers will have no employment pensions other than CPP. Other estimates suggest the coverage problem has very different dimensions. Many workers who are now counted as uncovered are in the process of qualifying for coverage. Other workers provide for themselves or are provided for by other means such as deferred profit-sharing plans. Still other workers are not covered because their primary interest is in enhancing present income.

There are a number of employment pension issues, as outlined above, and there are three options for dealing with those issues. One option is to implement the Royal Commission's PURS proposal. Another option is to expand coverage under CPP. A third option is to enhance the current private employment pension system and encourage the provision of better pensions and better pension coverage.

The Select Committee has already made its position on CPP known. Because of cost implications and other factors a majority of the Committee do not see the wisdom of expanding or enriching CPP retirement benefits at this time. Nor does the Select Committee recommend the implementation of the PURS plan at this time. The decision not to endorse the PURS option is hardly a reflection on the Royal Commission's proposal. PURS has many strengths and much to recommend it. A majority of the Select Committee thought PURS could be effective in providing employment pensions. But the current system also has inherent strengths and the Select Committee's proposals are designed to draw on and enhance those

strengths. So for the present, PURS will not be recommended so as to allow the existing employment pension system the opportunity to absorb the reforms proposed here and to provide better coverage and better pensions. If the private system fails to respond quickly and effectively it may then become necessary to reconsider the PURS option.

Coverage: The Mandatory Retirement Savings Plan

40. The Select Committee recommends that:

SCPR

The Government of Ontario should not institute a mandatory retirement savings plan at this time.

The Select Committee recommends further that:

SCPR

The success of the private system in providing better pensions and better pension coverage should be examined at the time of the first Pension Commission of Ontario review of the Pension Benefits Act.

Portability and Vesting

41. The Royal Commission proposed 10 year vesting under the PURS plan. The Select Committee has not endorsed recommendation 40, so it cannot endorse this proposal. Recommendation 42 speaks to the issue of vesting.

42. The Select Committee in its Interim Report endorsed this recommendation because it is consistent with the principle of

deferred wages and because there seemed to be widespread acceptance of the need for better vesting provisions than the current 45 and 10 rule (45 years of age and 10 years of service or plan membership). The Select Committee, therefore, recommends that:

SCPR

The Pension Benefits Act should be amended to require vesting after five years of service or five years' of membership in the plan. This change should take effect before the end of 1982.

The Select Committee also recommends that:

SCPR

The Pension Commission of Ontario should review the results of the change within three years time of the change, with a view to moving towards an earlier vesting period.

These proposals were recommendations 4 and 5 in the Select Committee's Interim Report.

Locking-in and Rights on Termination

The Royal Commission on Pensions recognized that improvements in vesting procedures only have meaning for employees when locking-in provisions are also improved. The Select Committee agrees with that observation and in its Interim Report the Committee endorsed the principles of the following two recommendations.

43. The Select Committee recommends that:

SCPR

The refund on termination of employment of unvested employees be equal to at least contributions with interest calculated at 1% below the annualized rate paid by

Canadian chartered banks on non-chequing accounts, compounded annually.

44. The Select Committee recommends that:

SCPR

The cost of the vested benefit be divided equally between employer and employee, with the employee's contribution valued as outlined in recommendation 43 above. Employee contributions and interest in excess of half the cost of the benefit should be returned to the employee.

These last two recommendations appeared as recommendations 6 and 7 in the Interim Report.

45. The Select Committee endorses the principle of this Royal Commission proposal and recommends that:

SCPR

The Pension Benefits Act should be amended to provide that upon termination of employment the employee has the right to transfer at least 50% of the employee's locked-in benefit to a non-commutable RRSP or to a new employer pension plan. When the employer agrees the entire benefit may be transferred.

This proposal was recommendation 8 in the Select Committee's Interim Report.

The Select Committee wishes to emphasize that a terminating employee's full deferred benefit is his or hers by right. The requirement to leave a portion of a benefit in a plan is only a concession to the funded status of less than fully funded employer plans.

The Select Committee is convinced of the principle that employment pensions are deferred wages, regardless of whether pensions are provided by contributory or non-contributory means. The Royal Commission proposed in these recommendations that rights conferred on employees enrolled in contributory plans would not extend to members of non-contributory plans. The Select Committee cannot support that position because of its inconsistency with the principle of employment pensions being deferred wages. Therefore the proposals above should apply with equal force to all employment pensions.

46. In making this particular recommendation the Royal Commission pointed out that if its other proposals were accepted the need for government compulsion to improve deferred benefits should not arise. The Select Committee adopts the Royal Commission's proposal and recommends that:

RCPR

If the recommended rights on termination are adopted, there should be no other government compulsion to improve deferred benefits between termination and normal retirement under a plan.

- 47, 48, and 49. In its Interim Report the Select Committee endorsed the principles of these Royal Commission proposals. The Select Committee confirms its recommendation that:

SCPR

All benefits should continue to be locked-in when they vest. The right to commute 25% of the vested benefit should be ended by amending the Pension Benefits Act. However, cash commutation should continue to be allowed where the value of the deferred monthly benefit at normal retirement age is \$25 a month or less.

This proposal appeared as recommendation 9 in the Select Committee's Interim Report.

50. The Select Committee confirms this proposal and recommends that:

SCPR

The Government of Ontario should request that Revenue Canada create a non-commutable RRSP investment vehicle for termination purposes.

This proposal appeared as recommendation 10 in the Select Committee's Interim Report.

51. The Select Committee endorses this proposal and recommends that:

SCPR

The Pension Benefits Act should be amended to provide that when the employee has transferred a portion of his or her deferred vested benefit, the employer no longer has responsibility for providing that portion of the benefit.

This proposal appeared as recommendation 11 in the Select Committee's Interim Report.

Central Pension Agency

52. This proposal of the Royal Commission has been widely perceived as one to simply create an agency to operate PURS. But the original recommendation spoke of other functions such as recording information about employees' deferred vested benefits and other entitlements. The Select Committee's proposals will require that information about employee rights and benefits be assembled, be stored, and be available for the employee to inspect and to establish entitlements on

retirement. Although the Select Committee cannot make specific recommendations about the size and structure of a Central Pension Agency it does recognize the utility of such an agency if the reforms proposed in this report are to work. The Select Committee, therefore, recommends that:

SCPR

A Central Pension Agency should be created. The agency would be responsible for recording and storing information about employee benefits. That information would be available for employees to consult and check and on retirement would be used to determine benefit entitlements.

Survivor Benefits

The Royal Commission expressed particular concern about the pension status under employment plans of surviving spouses. Many single aged persons are not provided for by pensions because the plans of deceased spouses fail to guarantee survivor benefits. The Select Committee agrees with the principle of the Royal Commission's position and endorses the adoption of the following two proposals, with supplementary Select Committee recommendations.

53. In the case of death before retirement the Select Committee recommends adoption of the Royal Commission's proposal that:

RCPR

- a) Where an employee dies before retirement and before being vested, the estate should be entitled to a refund of his or her contributions with interest calculated at 1% below the annualized rate paid by chartered banks in Canada on non-chequing accounts and compounded annually.
- b) Where an employee dies before retirement, but after becoming eligible to receive a retirement pension either by attaining normal retirement age or by fulfilling the requirements for early retirement as provided in the

plan, the spouse of any age should receive as a pension not less than 60% of the pension to which the employee would have been entitled had he or she actually retired under the plan.

- c) Where an employee dies before retirement and after being vested but before becoming eligible to receive the pension, and leaves a spouse surviving, the spouse should receive as a pension not less than 60% of the pension to which the employee would have been entitled on retirement, payable when the older of the employee or the spouse would have attained or attains the age of 65 or the normal retirement age under the plan, whichever is earliest.
- d) Where an employee dies before retirement and after being vested but before becoming eligible to receive the pension, and does not leave a spouse, or the spouse dies before receiving the pension provided in (c) above, the estate of the employee, or where the spouse dies after being entitled but before receiving the pension, the spouse's estate, shall receive the contributions of the employee with interest, or where applicable, the amount which would have been required at the employee's death to purchase the spouse's pension by way of an insurance company annuity, whichever shall be the greater.

The Select Committee recommends that:

SCPR

Change in the surviving spouse's marital or economic status should not alter the spouse's entitlement to a pension.

These provisions shall apply to both contributory and non-contributory pension plans.

54. The Select Committee in its Interim Report proposed in recommendation 12 that in the case of death after retirement:

SCPR

For employer-sponsored pension plans the normal form of benefit should be joint and last survivor, with a survivor level of 60% or more. Other annuity forms may be taken where the spouse signs off.

The Select Committee confirms its earlier recommendation, and adds that:

SCPR

Change in the surviving spouse's marital or economic status should not alter the spouse's entitlement to a pension.

Integration

55. When plans are integrated employees run the risk of losing benefits to which they may be entitled and which they may have paid for through contributions to any of the affected plans. The Royal Commission approved of some integration of benefits of government and employment plans, but recommended that losses should be contained. The Select Committee endorses the Royal Commission's proposal and recommends the Commission's proposal that:

The Pension Benefits Act should be amended to provide:

RCPR

- a) prohibition for existing plans of reduction in benefits by reference to any increase in the level of Old Age Security payments, whether or

not for increases related to the Consumer Price Index, above the levels set at the end of December 1979;

- b) prohibition for new plans of reduction in employment pension plan benefits by reference to any benefit from Old Age Security;
- c) prohibition of non-proportional methods of benefit offset integration for all new plans, and for all pensions from existing plans commencing on or after the date of coming into force of such amendment;
- d) prohibition of integration by any method for all legislative amendments to the CPP coming into effect after January 1, 1980, resulting in a direct increase in benefit levels or increased employee contribution rates, if integration would have the effect of reducing the pension benefit to less than the value of the employee's benefits accrued in the employment pension plan to the date of such amendment, or than the value of the employee's contributions, whichever is greater;
- e) prohibition of integration by any method for all increases in CPP benefit levels resulting from an increased YMPE after the year in which the YMPE equals or exceeds the Average Industrial Wage, if it would have the effect of reducing the pension benefits accrued in the employment pension plan to that date to less than the employee's benefits accrued to that date or than the value of the employee's contributions, whichever is greater.

56. The Select Committee did not recommend the PURS approach at this time, so it cannot recommend action on this proposal of the Royal Commission to integrate private plans with PURS.

57. The Royal Commission recommended that studies should be undertaken to ensure that any integration that might occur should preserve the accrued rights of employees. The Select Committee endorses the Royal Commission's proposal and recommends the adoption of the Commission's proposal that:

RCPR

For all plans, steps should be taken after an appropriate study by the Pension Commission of Ontario to ensure that any pension integration formula is consistent with the principle that the accrued rights of each employee be preserved, and that its operation is adequately explained to all plan members.

Funding

For employment pensions the financial soundness of sponsored plans is the guarantee of future benefits. Without proper funding, obligations may prove to be impossible to meet. But funding is based upon assumptions concerning the demand for and the size of future benefits. So funding is only as good as the assumptions about the future by those who design plans, specify plan contribution rates, and define the level of benefits plans are likely to have to pay out for as many as 50 years in the future. Funding methods must be of critical importance to any review of pensions.

Those who are responsible for plan design are highly trained professionals called actuaries. The Royal Commission recognized the complexity of the actuaries' tasks and the Select Committee appreciates the difficulties under which they labour. Actuaries must be able to forecast the effects of salary changes, plan costs, and investment returns, and the predictions must be done in a very fluid environment for futures that are uncertain.

The Royal Commission realised the practical difficulties of forecasting funding requirements. But the Royal Commission also recognized that the security of member benefits is of paramount concern. In recognition of the second consideration the Royal Commission made a number of recommendations.

Actuarial Funding Methods and Assumptions

58. The Select Committee could not endorse the Royal Commission's proposal as written, although the Committee does appreciate that the intent of the proposal was to insure the quality of actuarial funding methods and assumptions. The Select Committee recommends instead:

SCPR

The Pension Commission of Ontario and the Canadian Institute of Actuaries should continue to consult and develop guidelines for actuarial funding methods and assumptions. The guidelines should provide flexibility in valuation funding methods, while at the same time insuring that every reasonable effort is made to provide for the security of benefits.

59. The Royal Commission proposed that the ultimate responsibility for funding methods and valuation assumptions under which plans may operate should continue to reside with the Pension Commission of Ontario. But in view of recommendation 58 above, the Select Committee could not endorse the Royal Commission's proposal 59 as it was written. The Select Committee, therefore, recommends that:

SCPR

The Pension Commission of Ontario, in consultation with the Canadian Institute of Actuaries, should continue to identify the plan

types for which each of the permitted funding methods is appropriate.

60. The Select Committee endorses the Royal Commission's proposal set out below on the understanding that the consultation already proposed in recommendation 58 would take many of the funding and valuation suggestions into account. The Select Committee recommends the adoption of the proposal that:

SCPR

The Pension Commission of Ontario in consultation with the Canadian Institute of Actuaries should establish, as soon as possible, guidelines for the choice of actuarial assumptions by the actuary for a pension plan, directed to:

- a) the appropriateness of the choice of actuarial assumptions and their internal consistency;
- b) the incorporation of actual plan experience, where suitable, into the construction of tables for mortality and turnover rates;
- c) the identification of the inflation rate and other elements making up the salary scale and interest rate assumptions and requiring internal consistency.

Actuarial Valuations

61. The Select Committee endorses the Royal Commission's proposal and recommends the adoption of the Commission's proposal that:

RCPR

The Pension Benefits Act or its regulations should be amended to require actuarial reporting in

compliance with guidelines set by the Pension Commission of Ontario. Such guidelines should take precedence over the standard now enunciated in Section 4b(1) of the regulations which requires actuarial reports to use assumptions and methods as determined by the actuarial profession.

62. The Select Committee endorses the Royal Commission's proposal and recommends the adoption of the Commission's proposal that:

RCPR

The Pension Benefits Act or regulations or guidelines should be amended to permit the use of capitalized values for valuing fixed income securities only when the following conditions apply:

- a) the securities are of high quality and low risk;
- b) those securities held in the fund bearing interest at a rate below the actuarial assumed rate be written down in the same manner as those written up;
- c) liquidity requirements of the fund permit the holding of such securities to maturity.

63. The Select Committee endorses the Royal Commission's proposal and recommends the adoption of the Commission's proposal that:

RCPR

The Canadian Institute of Actuaries should be asked to undertake, in collaboration with the Canadian Institute of Chartered Accountants, the early development of a standard form of Actuarial Valuation Balance Sheet which will provide more meaningful information as to the funded status of the pension plan for disclosure to employees.

64. The Select Committee endorses the Royal Commission's proposal and recommends the adoption of the Commission's proposal that:

RCPR

The Pension Benefits Act or regulations should be amended to require the filing of the Actuarial Valuation Balance Sheet in compliance with such standard form for disclosure purposes, or if such standard form is not established by the Canadian Institute of Actuaries within a reasonable time, in compliance with such form or requirements as may be set by the Pension Commission of Ontario from time to time by regulations.

65. The Select Committee endorses the principle of the Royal Commission's proposal and recommends the adoption of the proposal, with one amendment to change the six month requirement to nine months.

SCPR

The Pension Benefits Act or regulations should be amended to require that all actuarial valuations (except for certain plans in the public sector) be filed on a triennial basis within nine months of the fiscal year end of the plan rather than the present 12 months, and that, if necessary for enforcement, suitable penalties for default be introduced.

66. The Select Committee endorses the Royal Commission's proposal and recommends the adoption of the Commission's proposal that:

RCPR

The Pension Benefits Act or regulations should be amended to require that all pension plans in the public sector, including the Hospitals of Ontario Pension Plan, having assets of \$150 million or more, file an actuarial valuation annually with the Pension

Commission of Ontario within nine months of the fiscal year end of the plan.

67. The Select Committee endorses the Royal Commission's proposal and recommends the adoption of the Commission's proposal that:

RCPR

The Government of Ontario should take immediate steps to place all public sector pension plans other than those having assets of \$150 million or more on the same fiscal year end, and to co-ordinate the filing of actuarial valuations so that those plans reporting triennially will all report for the same period.

Solvency Requirements

68. The Select Committee considered this Royal Commission proposal in its Interim Report. In that report the Committee endorsed it as recommendation 13. The Select Committee, reaffirms the proposal and recommends that:

SCPR

The present funding requirements for liabilities should not be changed at this time.

RCPR

The existing maximum amortization periods now available under the Pension Benefits Act, of 15 years for initial unfunded liabilities and 5 years for experience deficiencies, should remain unchanged.

69. The Select Committee endorses the Royal Commission's proposal and recommends the adoption of the Commission's proposal that:

RCPR

All additional liabilities created in any pension plan by the legislative amendments arising out of the recommendations (e.g., earlier vesting), subject to the approval of the Pension Commission of Ontario as to the amount of such additional liabilities, should be amortized over not more than 15 years and treated in the same manner as initial unfunded liabilities under the act.

70. The Select Committee endorses the Royal Commission's proposal, as amended here to remove initiation dates, and recommends the adoption of the proposal that:

SCPR

The "test valuation" permitted under Regulation 4a. of the Pension Benefits Act, allowing the treatment of certain experience deficiencies as initial unfunded liabilities for the purpose of determining the amortization period for the liability, should be phased out by prohibiting its use for actuarial valuations. Any experience deficiencies deemed to be initial unfunded actuarial liabilities under the test valuation in the past should be liquidated in accordance with the current rule, i.e., by an immediate lump-sum payment or by equal annual payments over not more than 15 years from the valuation date as of which they were discovered, and all other experience deficiencies should be liquidated by an immediate lump-sum payment or by equal annual payments over not more than 5 years from the valuation date as of which they were discovered.

71. The Select Committee endorses the Royal Commission's proposal and recommends the adoption of the Commission's proposal that:

RCPR

For plans using a flat benefit design, and such other plans as the Pension Commission of Ontario

may designate from time to time, there should be such conditions for plan improvements resulting in initial unfunded liabilities, as may be determined by regulation made under the Pension Benefits Act, in order to ensure adequate funding under the plan for benefits promised from time to time and with a view of equalizing the rate of funding for all types of defined benefit plans.

72. The Select Committee endorses the principle of the Royal Commission's proposal and recommends the adoption of the proposal, as amended, that:

SCPR

The provisions of the Pension Benefits Act should continue to apply to all employment pension plans in Ontario.

Funding of Post-Retirement Adjustments

73. The Select Committee cannot endorse the Royal Commission's proposal on the funding of post-retirement adjustments as written. The Committee proposed in its Interim Report that the excess interest approach should be used for inflation protection. No recommendation in regard to post-retirement adjustment funding should be made until the development of guidelines by the Pension Commission of Ontario for the use of the excess interest approach.

Plan Wind-up

The Royal Commission noted that employment plans are established voluntarily and they may be wound up voluntarily by the plan sponsor at any time. On wind-up employers are responsible for

some costs, but not all. The Pension Benefits Act exists to protect employees' rights, but the Act is limited in that it can only protect accrued benefits to the extent that they are funded at the time of plan wind-up.

Fortunately there have been very few instances of loss of basic benefits or plan wind-up since the Pension Benefits Act came into force in 1965. But basic benefits do not embrace all benefits that plans may pay or that an employer may have promised. Loss of benefits can occur, for example, when liabilities created by new or improved provisions within a plan have not been amortized by the time of plan wind-up.

One way to improve the situation is for plan sponsors to make plan members more fully aware of any possible changes in plans. Thus the Royal Commission proposed enhancing disclosure requirements in the event of termination and when major changes occur in a plan.

74. The Select Committee endorses the Royal Commission's proposal and recommends the adoption of the Commission's proposal that:

RCPR

The Pension Benefits Act should be amended to provide that meaningful disclosure be made to all members of a pension plan individually, advising that in the event of a plan termination, whether voluntary or not, those benefits which have been promised but which are funded by payments into the future will only be paid to the extent they have been paid for at the date of plan termination. Such disclosure should be made at each plan change which affects benefits.

Another way in which to deal with termination of plans is to provide insurance against the possibility on wind-up of loss of benefits. In the U.S. such insurance exists. It provides a

visible programme of government assistance in the neediest cases and, apart from start-up costs and occasional heavy claims, insurance is not a major financial burden for government. But the Royal Commission found that there were difficulties with the U.S. insurance scheme. First, it has limited application in covering benefits. Secondly, insurance premiums tend to penalize well funded plans and provide a subsidy for those which are not financially sound. Thirdly, a minority of people are protected by the insurance. For those reasons the Royal Commission could not recommend the establishment of an insurance scheme. But in Ontario a limited form of insurance was established with the Guarantee Fund, which was created under provisions of Bill 214, An Act to amend The Pension Benefits Act.

The Amendment to the Pension Benefits Act, as it is now written, establishes a fund, having marketable assets, that is to be administered by the Pension Commission of Ontario. The fund ensures that when a pension plan is voluntarily wound-up or is wound-up because of sponsor bankruptcy or insolvency and assets are not sufficient to provide all benefits to members under the terms of the Act, monies will be available to make up any losses of entitlement for vested members. Under the legislation all plans which have an unfunded liability are to be required to pay an annual assessment to the Guarantee Fund. Fully funded pension plans would not be assessed because, by definition, they have no unfunded liabilities.

The Select Committee believes that the Guarantee Fund and the principles that it represents should continue in place to provide protection at the time of plan termination for vested members who are qualified under the 45-and-10 rule. What the Guarantee Fund should not do is to provide protection for plan members who qualify under vesting arrangements that are better than 45-and-10 or who qualify as a result of the implementation of recommendation 42 of this Report.

75. The Select Committee, therefore, recommends that:

No steps should be taken to extend pension plan fund guarantees beyond the current provisions outlined in Bill 214, An Act to amend the Pension Benefits Act.

In the event that the Government of Ontario does act upon the Select Committee's recommendation, the following options could be put into place to protect plan members who would not be covered by the Guarantee Fund. The proposals would provide many of the same protections to plan members that insurance or a Guarantee Fund would, but without the expense of insurance and the necessary unfairness to provisionally funded plans that have unfunded liabilities.

- Funding rules for plans at risk could be strengthened. The new rules would be formulated by the Pension Commission of Ontario and the Canadian Institute of Actuaries.
- The Pension Commission of Ontario could be given the right to impose a continuing funding requirement for vested benefits upon an employer who voluntarily winds-up a pension plan. The liability, under agreement with the Pension Commission, could be amortized over a period of time not exceeding 10 years. The risk to benefits would be placed upon the firm or employer that voluntarily winds-up a pension plan.
- In the case of bankruptcy or insolvency the Pension Commission of Ontario could be given the right to place a lien or charge on the assets of the bankrupt or insolvent estate to protect employees. Changes in federal bankruptcy legislation would be required to implement this part of the proposal.

Priorities

For wind-up clear rules must exist to define the priorities of payment. The fair allocation of the funds of wound-up plans

dictates the necessity of such rules. The Royal Commission did advocate this position of establishing priorities and the Select Committee endorses the proposal.

76. The Select Committee recommends the adoption of the Royal Commission's proposal that:

RCPR

The Pension Benefits Act should be amended to require that, upon wind-up of an employment pension plan, those persons who have met the conditions for normal retirement or who have taken or are eligible for early retirement under the plan at least six months before the date of wind-up, or who are in receipt of a permanent disability pension under the plan, shall receive first priority for all basic pension benefits payable to them at the date of such retirement, whether or not these have been fully funded, to the extent of the assets of the plan. If the assets of the plan are not sufficient, these persons shall share rateably in the available assets. All other benefits, including any post-retirement benefit improvements, shall be payable only to the extent funded and shall be subject to the terms of the pension plan and the requirements of the Pension Benefits Act as they apply to all plan members.

77. The Select Committee endorses the adoption of the Royal Commission's further proposal that on plan wind-up:

RCPR

Except for the special protection to be provided under recommendation 76, priorities among members on pension plan wind-up should be determined by the provisions of the pension plan, and where the pension plan does not so provide, then by the requirements of the Pension Benefits Act, which should be

amended to state clearly the following classes of priority, each member of the class to receive the entitlements stipulated before any allocation to the next following class, the members of classes to share rateably:

- a) statutory deferred life annuitants, active and terminated: pension benefits to the extent funded;
- b) members vested under the plan provisions: pension benefits to the extent funded; non-vested members: benefits to the extent of required contributions;
- c) members to the extent of their additional voluntary contributions;
- d) members having other pension benefits, to the extent funded;
- e) members having any other benefits: e.g., bridging supplements if not pre-funded; escalated adjustments if not pre-funded.

Bankruptcy or insolvency of an employer creates special concerns because pension fund assets do not form part of the bankrupt estate. For that reason the Royal Commission advocated a number of measures to minimize difficulties for plan members in the event of employer bankruptcy or insolvency.

78. The Select Committee endorses the Royal Commission's proposal and recommends the adoption of the Commission's proposal that:

RCPR

The Pension Benefits Act should be amended to create a statutory lien for monies deemed to be held in trust by employers under Section 23 of the Act.

79. The Select Committee endorses the Royal Commission's proposal and notes that the provisions of this recommendation have been carried into effect in the Pension Benefits Act.

RCPR

The Pension Benefits Act should be amended to create a right in the Pension Commission of Ontario to intervene on behalf of plan members where the employer sponsor of the plan has become insolvent, and to enforce the statutory lien to obtain payment into the plan of monies deemed to be held in trust for the benefit of the plan members.

80. The Select Committee endorses the Royal Commission's proposal and recommends the adoption of the Commission's proposal that:

RCPR

To the extent that such steps in amending the Pension Benefits Act by the Government of Ontario are determined to be bankruptcy legislation and therefore beyond the legislative powers of the provinces, the Government of Ontario should take steps to persuade the federal government to create a protected classification under federal bankruptcy legislation to protect,

- a) employee contributions which have been deducted and not remitted;
- b) employer contributions payable to the date of bankruptcy or insolvency.

81. The Select Committee endorses the Royal Commission's proposal and recommends the adoption of the Commission's proposal that:

RCPR

The Pension Benefits Act or regulations should be amended to require:

- a) in the case of money-purchase plans, that employer contributions be due and payable at the same time now provided for employee contributions;
- b) in the case of defined benefit plans, the employer contributions be due and payable in four equal instalments to be made within 30 days of the end of each quarter of the plan year.

Investment

82. The Royal Commission noted some concern about enforcing the rights of plan members with respect to investments of plan funds outside of the country. In its deliberations the Select Committee found that foreign investment by pension funds is very carefully regulated and monitored and that there are stringent limits on the amount of foreign holdings of funds operated within the province. However, if there is potential for problems that potential should be assessed. The Select Committee, therefore, supports the Royal Commission's recommendation that:

RCPR

The Pension Commission of Ontario should assess the extent of the potential problems arising from the absence of regulation of the situs of pension plan assets, and, if found necessary, make recommendations for amendments to the Pension Benefits Act or its regulations.

Disclosure

There is widespread agreement that full disclosure to plan members is desirable. Several other provinces have recently moved to adopt wide disclosure requirements. Ontario has also recently adopted wide disclosure requirements under the Pension Benefits Act.

83. The Royal Commission recommended that the province adopt the principle that no information that is necessary for individual assessment of a plan by a member should be withheld from a member. The Select Committee endorsed the principle and confirmed it in recommendation 14 of its Interim Report. The Select Committee therefore confirms the recommendation that:

SCPR

The Government of Ontario should proceed as quickly as possible to revise and update its disclosure requirements in conjunction with other provinces. The goal should be to ensure that the requirements are uniform and that all reasonable information with respect to the employee's position and the status of the plan is disclosed. This information should be available both upon request and at regular intervals.

Audit

To aid in the matter of understanding the financial condition of pension plans the Royal Commission made two proposals with regard to auditing requirements. The Select Committee has reviewed the proposals and endorses them.

84. The Select Committee recommends the adoption of the Royal Commission's proposal that:

RCPR

The Pension Benefits Act and its regulations should be amended to require audit of both the pension plan and the pension fund with an audit report certified by a chartered accountant, to be filed with the Pension Commission of Ontario as follows:

- a) for multi-employer plans, an audit report on the pension plan shall be filed annually;
- b) for all other employment pension plans, an audit report on the pension plan shall be filed at least every three years and coincide with the period of the triennial actuarial evaluation;
- c) for all employment pension plans, except where assets are held by an insurance company or trust company and a certificate as to the existence of assets is given by the auditors of such company, an audit report on the pension fund shall be filed annually.

85. The Select Committee recommends the adoption of the Royal Commission's proposal that:

RCPR

The Pension Benefits Act and its regulations should be amended to give the Pension Commission of Ontario specific authority to require audits of both plan and fund more frequently and to order an independent audit of the plan and the fund if in the opinion of the Commission such audit is warranted for the protection of plan members.

The Pension Commission of Ontario

The Pension Commission of Ontario (PCO) has been performing its regulatory functions under the Pension Benefits Act since 1965. The emphasis of the Commission's activities has been on protecting the vested rights of pension plan members and on regulating the solvency and investments of plans. The Royal Commission saw the Pension Commission's role in these areas as valuable and useful. But the Royal Commission noted that today more is required of the Pension Commission. Pension issues have become very complex and the Royal Commission placed many new and difficult responsibilities on the PCO. It was argued by the Royal Commission that an expanded PCO is necessary.

The Select Committee agrees with the suggestion made by the Royal Commission to expand the role of the PCO. The complexity and enormity of pension issues requires an agency capable of dealing with them in regulatory matters. The PCO, as it is now constituted, could not fulfill all of the tasks expected of it. So the Select Committee endorses an expansion and a modification of the PCO, outlined in the following recommendations.

86. The Select Committee endorses the principle of the Royal Commission's proposal and the Committee makes the following recommendation that:

SCPR

The Pension Benefits Act should be amended to expand the role of the Pension Commission of Ontario from a regulatory body alone to a body designed to inform and assist individuals in enforcing their rights to pension benefits in employment pension plans, and for that purpose the Pension Commission should be given power:

- a) to investigate an appropriate mechanism to settle disputes between an employer or a union and an employee as to entitlements under a pension plan;
- b) once the mechanism is in place the Commission have the legislative authority to intervene with the employer or a union on behalf of a plan member or class of plan members, including active, retired, or terminated members and their beneficiaries.

The following three recommendations flow from this first.

87. The Select Committee endorses the Royal Commission's proposal and recommends the Commission's proposal that:

RCPR

The Pension Commission of Ontario should be requested to undertake a review of the Pension Benefits Act and report to the Minister with proposals for amendment of both the Act and the regulations, including those changes recommended by this Committee.

88. The Select Committee endorses the Royal Commission's proposal and recommends the Commission's proposal that:

RCPR

The Pension Benefits Act should be amended to require the Pension Commission of Ontario to make a periodic review of the Act and regulations and submit its report on recommended amendments to the Minister at least every five years, with the further requirement that its report be tabled in the Legislature.

89. The Select Committee endorses the Royal Commission's proposal and recommends the Commission's proposal that:

The necessary monies should be allocated to permit the Pension Commission of Ontario to carry out effectively its additional obligations contemplated by the recommendations for an expanded role for the Commission.

Further Pension Benefits Act Amendments

Multi-Employer Plans

The Royal Commission made three recommendations specifically concerning multi-employer plans. These recommendations responded to a number of difficulties and the Select Committee endorses the intent of these proposals. But the Select Committee identified other concerns with multi-employer pensions.

Elsewhere in this report the Select Committee has endorsed the principle of pensions being deferred wages. That principle applies to all workers who are eligible for pensions. But the special circumstances of workers who are employed in multi-employer industries requires an additional new principle. The Select Committee endorses the principle of "the money-follows-the-worker".

In using the phrase "the-money-follows-the-worker" the Select Committee is referring to two things. First, the Select Committee is referring to the pension benefits an employee may earn through employment. These benefits should be credited to the employee, even if the employee is working away from home. Secondly, the Select Committee is referring to the value of benefits credited to the employee. These should follow the worker wherever he or she works and in whatever trade or industry he or she might work.

In its deliberations the Select Committee became aware of many problems faced by workers in multi-employer industries. The Select Committee's enunciation of the principle above is recognition of those problems. The problems are defined as follows:

- (i) Multi-employer plans are inadequately defined in current legislation. They require separate treatment in recognition of their special nature. A statute to define multi-employer plans would be highly beneficial.
- (ii) At present the obligations and responsibilities of Boards of Trustees under multi-employer plans are not adequately defined for both administrative and legal purposes. The duties and responsibilities of Boards of Trustees as plan sponsors should be clarified to take into account the full range of Board of Trustee obligations to members of a plan.
- (iii) Many workers who belong to multi-employer plans are highly mobile. This is particularly true for those who work in the construction trades. Vesting of benefits is a problem because many workers do not and cannot meet the criteria, even as proposed by the Select Committee of 5 years service or plan membership. Therefore, the Select Committee, in recognition of the special circumstances of workers in multi-employer plans, proposes working toward full and immediate vesting and that members' benefits eventually be locked-in fully and immediately. The Select Committee realises that there will be difficulties in implementing this proposal. But it is the only way that the Select Committee believes that the principles of pensions being deferred wages and money-follows-the-worker can be carried into effect.
- (iv) There have been many instances cited to the Select Committee of Boards of Trustees of multi-employer plans having difficulty obtaining reports and benefits from participating employers. The situation becomes particularly difficult if an employer becomes insolvent. The Select Committee, therefore, recommends that Boards of Trustees should be given some power by statute to act to protect the rights of plan members in the event of employers failing to report, failing to remit contributions, and becoming insolvent.
- (v) The Select Committee found particular difficulty with the benefit and contribution structure of multi-employer plans. In most instances plans are financed through contributions which are defined for the life of a particular contract. That feature makes multi-employer plans resemble money-purchase

arrangements. And there are, in fact, some money-purchase multi-employer plans. But many plans provide a defined benefit, typically of so many dollars per month for each year of service. What happens, not infrequently, is that the fixed rate of contribution is too little to provide the defined benefit, with the result that experience deficiencies develop. And these deficiencies may continue for extended periods of time, resulting in large unfunded liabilities. The current remedy is to either increase contribution levels or to reduce benefit levels.

The Select Committee's preference for new multi-employer plans is that they be of the money-purchase variety in order to overcome the difficulty of contribution rates and benefit rates that do not match.

The Select Committee realises that there are many multi-employer plans providing defined benefits and functioning well for their members. It is not the Select Committee's intent to apply its recommendation to properly functioning plans, which manage contribution and benefit rates well. No interference in such plans is intended or recommended.

- (vi) The problem of delinquent employers is a particular difficulty in multi-employer situations because, typically, not all but a few members are affected. When some participating employers of a plan stop contributing, for whatever reason, and contribution rates are not adjusted, the plan's ability to supply defined benefits is impaired. That situation, in part, explains the Select Committee's preference for money-purchase arrangements for multi-employer plans. The Select Committee suggests that alternatives be considered to deal with the problem of delinquent employers and that the deliberations on this subject should be carried out by the Canadian Co-ordinating Committee on Multi-Employer Plans in conjunction with the Pension Commission of Ontario.
- (vii) Disclosure of information is treated elsewhere in the Select Committee's report. The principles applied to single employer plans should apply with equal force to multi-employer plans.
- (viii) Reciprocal transfer agreements are the means by which portability among members of multi-employer plans may be achieved. The Select Committee found instances of reciprocal transfer agreements working well, but instances, too, of agreements working poorly or not at all, with the result that some workers earn pension benefits but do not receive credit for them. There were a variety of causes for the poor operation of reciprocal transfer agreements or for the complete

absence of such transfers. Usually the cause was the absence of a registered pension plan into which pension benefits might be transferred. There were other problems and these need to be addressed. But as a first measure registered pension plans should be established by all groups that participate in multi-employer plans. After that the Canadian Co-ordinating Committee on Multi-Employer Plans and the Pension Commission of Ontario may wish to conduct deliberations on methods to improve the operation of reciprocal transfer agreements.

Having made the points above the Select Committee endorses the intent of the Royal Commission's proposals, qualified by the points above, and the Committee recommends that:

SCPR

90. The Pension Benefits Act should be amended to incorporate the principle, as specified by the Select Committee, of the money-follows-the-worker in multi-employer plans, union sponsored pension plans, and any type of employee-pay-all plan which provides a pension benefit.

SCPR

91. The Pension Benefits Act should be amended to place upon the Board of Trustees of a multi-employer plan the responsibility for carrying out the principle of the money-follows-the-worker and other responsibilities normally placed upon the employer in a single employer plan, where these responsibilities are not properly attributable to participating employers.

SCPR

92. The Pension Commission of Ontario, with the cooperation of the Canadian Co-ordinating Committee on Multi-Employer Plans, and other interested parties, should take whatever steps are necessary to prepare guidelines and regulations for the Pension Benefits Act to improve multi-employer plan reciprocal transfer agreements in such a way as to ensure that individuals are not deprived of service-based benefits.

Representation of Plan Members

93. In its Interim Report the Select Committee proposed in recommendation 15 that:

SCPR

The Pension Benefits Act be amended to require that the employees be allowed to choose at least one member on the body directing the affairs of the plan. The Pension Commission of Ontario should review this within three years with the view to increasing representation of employees and retirees.

The Select Committee confirms this proposal.

Obligations of Trustees

94. The Select Committee endorses the Royal Commission's proposal and recommends the adoption of the Commission's proposal that:

RCPR

The Pension Benefits Act should be amended to state clearly the distinction between the person responsible for the operation of the plan and the person responsible for the operation of the fund, and in the latter case, the extent of the obligation of that person for investment management of the fund.

Garnishment of Benefits

95. The Select Committee endorses the Royal Commission's proposal and recommends the adoption of the Commission's proposal that:

RCPR

The principle that pension benefits are not assignable or subject to seizure should continue without further exceptions.

For existing exceptions see discussion in recommendations 145 and 146.

Effective Date of Proposed Legislation

96. The Select Committee recognizes the need to allow a reasonable period to phase in many of the proposals outlined in this report. But the Committee is also anxious to see the Royal Commission's and its proposals implemented as expeditiously as possible. The Select Committee, therefore, endorses the proposal of the Royal Commission and recommends the adoption of the Commission's proposal that:

RCPR

Legislation implementing recommended changes should be effective at a time not later than three years after the legislation has received Royal assent.

Relationship with Mandatory Plan

The Select Committee did not recommend PURS at this time, so many of the proposals in this section cannot be applied to employment

pension plans. But there are some proposals that can be acted upon in the absence of PURS. These latter proposals are important recommendations and they have far-reaching implications.

97. The Royal Commission and the Select Committee heard many representations on the subject of part-time employment and pension plans. The Royal Commission was convinced and the Select Committee is also convinced that the time has now come for part-time workers to be given the opportunity, if they wish it, to participate in employment pension plans. The Select Committee supports the principle of the Royal Commission's proposal and the Committee recommends that:

SCPR

When a durable employment relationship exists between an employer and a part-time employee, the employee should be given the opportunity to participate voluntarily in the employer's pension plan.

98. and 99. These are PURS related and cannot be endorsed or recommended at this time. Recommendation 98 dealt with the proposed relationship between PURS and other contributory plans, and recommendation 99 dealt with eligibility rules.
100. The Select Committee does not endorse the Royal Commission's proposal and recommends the adoption of an amended proposal for service requirement that:

SCPR

The Pension Benefits Act should be amended to provide for a service requirement of one year and 30 years of age.

101. This was a PURS related proposal dealing with employment pension locking-in provisions and it cannot be endorsed or recommended by the Select Committee at this time.

102. This was a PURS related proposal dealing with benefit form and it cannot be endorsed or recommended by the Select Committee at this time.

103. The Select Committee endorses the Royal Commission's proposal and recommends the adoption of the Commission's proposal that:

RCPR

The pension benefit available under a registered pension plan should continue to be in the form of a life annuity, such annuity to be non-commutable except for minimum amounts as determined by the Pension Commission of Ontario from time to time.

104. The Select Committee endorses the Royal Commission's proposal and recommends the adoption of the Commission's proposal that:

RCPR

Because the life annuity in its basic form is not adaptable to the effects of inflation, the Pension Benefits Act should be amended to make available to every plan member on retirement the option of a participating annuity; and in addition, where the annuity is to be obtained from an insurance company, the option of an escalating annuity.

105. This was a PURS related proposal to establish the use of unisex tables for PURS annuities and cannot be endorsed or recommended by the Select Committee at this time.

106. The Royal Commission was divided on the use of unisex mortality tables for calculating annuities, with two of the commissioners offering dissenting opinions. The Select Committee, in view of the widely different feelings expressed toward the use of unisex tables, cannot endorse

them at this time. The Select Committee, differing with the Royal Commission's proposal, recommends that:

SCPR

*

No steps should be taken at this time to require the use of unisex mortality tables.

107. This was a PURS related proposal to deal with opting-out provisions and it cannot be endorsed or recommended by the Select Committee at this time.

ONTARIO PUBLIC SECTOR

EMPLOYMENT PENSION PLANS

The Ontario public sector embraces over 130 employment pension plans for almost one-half million employees. Most employees are members of one of the five major plans: the Public Service Superannuation Fund (PSSF); the Teachers' Superannuation Fund (TSF); the Ontario Municipal Employees Retirement System (OMERS); the Hospitals of Ontario Pension Plan (HOOPP); and the Ontario Hydro Plan. These five plans account for 84% of the public sector membership, have liabilities for service to date of approximately \$15 billion, and have assets of between \$11 and \$13 billion.

The very size of some of the public sector plans creates some concerns about funding matters, controlling costs, and co-ordinating programmes. The fact that these are public sector plans makes it all the more imperative that they are operated in a truly cost efficient manner.

Three issues, in addition to some general matters, stand out with respect to public sector plans. The three issues are: funding, cost control, and investment of pension funds. Each of these matters are addressed by the Royal Commission's report and by the comments of the Select Committee in this report. The Select Committee recognizes that many previous recommendations do apply to public sector plans. But these recommendations are specifically for those plans in the public sector.

General Principles

108. The Royal Commission's recommendation seems to imply that there are some public sector plans which are not covered by the provisions of the Pension Benefits Act. The recommendation does read, in fact, that public sector plans should continue to be under the Pension Benefits Act, with no new exceptions. The Select Committee wishes to emphasize that there was never any doubt or possibility that public sector plans were not covered by the provisions of the Pension Benefits Act and recommends that:

SCPR

The Government of Ontario should continue to support the principle that all public sector employment pension plans should remain under the provisions of the Pension Benefits Act.

109. The Royal Commission, with this recommendation, directed that the Crown in the right of Ontario, its agencies, and municipalities should be bound by the Pension Benefits Act. The Select Committee investigated this issue and concluded that the Crown, its agencies, and municipalities in Ontario are presently bound by the provisions of the Pension Benefits Act and have been since the Act came into force. The Select Committee, therefore, recommends that:

SCPR

The Committee supports a continuation of Section 1(d) of the Pension Benefits Act which makes the Act applicable to the Crown in right of Ontario, its agencies, and municipalities.

110. The Royal Commission sought, with this recommendation, to formally recognize in Acts pertaining to pension benefits the precedence of the Pension Benefits Act. The Select Committee has investigated this matter and is convinced that the Pension Benefits Act does take precedence in all Acts

governing public sector pensions. The Select Committee recommends, therefore, that:

SCPR

In order to avoid any misunderstanding, all Acts and regulations pertaining to public sector pension plans should be amended to recognize the precedence of the Pension Benefits Act.

111. This recommendation of the Royal Commission proposed certain changes to the Legislative Assembly Retirement Allowances Account. It is the Select Committee's understanding that the Allowance Account is now under study by the Board of Internal Economy. In view of that study now underway the Select Committee recommends that:

SCPR

While the Board of Internal Economy's review is in progress it would be inappropriate for the Select Committee to comment on the issues outlined in the Royal Commission's proposal.

The Select Committee will also defer comment on other Royal Commission recommendations with respect to LARAA.

112. The Select Committee endorses and recommends the Royal Commission's proposal that:

RCPR

The Government of Ontario should immediately adopt a policy of determining the full and true cost of all pension benefits provided to employees in the Ontario public sector and to utilize such information for the following purposes:

- a) to recognize and control the cost of all such benefits for the full term of their accrual,

- b) to allocate cost fairly between employer and employees;
- c) to provide information on such costs to both employers and employees, whether or not such pensions are subject to collective bargaining;
- d) to provide information on such costs to taxpayers.

Funding

Two funding issues are of importance. First, basic benefits must be paid for through employee and employer contributions. Both of these contributions are made up in large measure from public sources of funds, so costs should be recognized and controlled. Secondly, inflation protection should be at a reasonable cost to both employees and employers which, again, is ultimately beneficial to the taxpayers of the province of Ontario. The recommendations of the Royal Commission recognized these two aspects of funding public sector pension plans in Ontario and the proposals themselves are addressed to improving funding and to improving our understanding of the costs of funding. The Committee endorses the general thrusts of the proposals to control costs and to make costs better understood by all taxpayers of the province.

113. This recommendation of the Royal Commission dealt with a long established practice, the matching of contributions. It is a practice that goes back to the earliest pension benefit provisions in this province, wherein the employee and the employer would agree to pay equal and matching contributions toward the costs of pension benefits. The practice was established in an era when it was believed that, in the long run, pension costs would be level and

stable. Conditions have turned out otherwise; yet the practice remains, at least as a principle under various pension benefit acts. Employee and employers still continue to match contributions. But the Pension Benefits Act since 1965 has required unfunded liabilities to be amortized and that is an employer responsibility in both the public and private sector. This particular recommendation recognizes formally what has been a funding practice for almost 16 years. The adoption of this recommendation would create no additional employee contributions or change employee contribution rates. The effect of the recommendation would be to better identify cost responsibilities. The Select Committee, therefore, recommends the adoption of the Royal Commission's proposal that:

RCPR

The principle of "matching contributions" in all public sector plans should be abandoned, and both legislation and established policies setting contributions on a matching basis in such plans should be amended so that contribution rates reflect the true cost responsibilities under the plan.

114. In the same vein of establishing better means to identify costs and cost responsibility the Royal Commission suggested that the PSSF should be established as a separate fund, distinct from the Consolidated Revenue Fund of which it is now a part. Again, this would have no implications for employee contributions and the recommendation would simply do for the PSSF what was done long ago for the TSF. The Select Committee, therefore, endorses the proposal of the Royal Commission and recommends adoption of the proposal with respect to the PSSF that:

RCPR

The Public Service Superannuation Fund (PSSF) should be established as a separate fund apart from the Consolidated Revenue Fund and the Treasurer's Account, with an

initial unfunded liability as of January 1, 1965 on which interest only is payable pursuant to Section 2(13) of the Pension Benefits Act Regulations, with all other initial unfunded liabilities or experience deficiencies to be amortized by special payments in the usual way under the Pension Benefits Act.

Actuarial Valuations

115. Recommendation 66 previously specified reporting requirements for various public sector plans. The recommendation that follows establishes guidelines with respect to methods for valuating public sector plans. The guidelines were originally formulated by the Management Board of Cabinet and it appears to the Select Committee that the Royal Commission recognized them as proper means to guide the conduct of actuarial valuations. The Select Committee agrees with the Royal Commission and recommends that the Management Board's guidelines of November, 1976 should form the basis of public sector plan actuarial valuations. The Select Committee endorses adoption of the Royal Commission's proposal that:

RCPR

For actuarial valuations of all public sector plans, a basis for actuarial assumptions should be prescribed as follows, with the assumptions derived from such basis to be subject to the approval of the Pension Commission of Ontario:

- a) the investment rate of return, setting out separately:

- (i) the inflation rate forecast for pension purposes by the Treasurer of Ontario;
 - (ii) the real rate of return;
 - (iii) the risk factor, provided that where the fund is invested in Canada or Ontario debt instruments no risk factor be taken into account; where the fund is invested in other market securities, all factors to apply; where the fund is invested in both categories of investment, the applicable rate be applied to the appropriate portion of the fund;
- b) the salary scale, setting out separately:
 - (i) the inflation rate, being the same as that used for the investment rate of return;
 - (ii) merit increases;
 - (iii) productivity;
- c) the YMPE set for the year by Canada Pension Plan legislation; and decremental assumptions for mortality, disability, and terminations should be assessed against actual experience every three years for each of the PSSF, TSF, HOOPP, Hydro, and such others which become large enough to produce significant results. Such assumptions should be set by the plan actuary taking into account such actual experience, and for this purpose a regular demographic forecast should be undertaken by the Government

of Ontario for each plan, and data maintained for assessing the experience of the plan against the forecast.

Funding of Indexing

The Royal Commission's attention concerning indexation was directed toward just four plans, although two of those four plans do cover a large number of people (PSSF, TSF, Ryerson Pension Fund, and the Caucus Employees' Retirement Fund). These four plans alone use a technique for indexation provided under the Superannuation Adjustment Benefits Act (SABA). The result of the Royal Commission's proposals would be an altering of SABA.

Before continuing with this discussion of the Royal Commission's proposals, it would be appropriate to provide background on SABA indexation. Prior to the institution of SABA, pension benefits were constantly losing purchasing value to inflation. The province provided ad hoc adjustments, but these were not at regular intervals and they depended completely on the employer having and providing the funds. A decision was made to involve employees and their employers in providing adjustment funds. So SABA was enacted to take a 1% contribution from both employees and their employers.

When SABA began, inflation adjustments were usually below the cap value of 8%. So the 2% employee/employer contribution rate was sufficient to maintain the financial integrity of the adjustment fund. Conditions are now different and the contribution rate will have to rise very steeply or the adjustment fund will lose solvency and its capacity to provide any adjustments. The Royal Commission recognized these consequences of current economic trends and found them unacceptable. Employees would have to be asked to pay much more for indexing and the employers' share would grow to unacceptable levels. Since both shares,

ultimately, come from public revenue, a substantial increase would also be an unacceptable burden on the taxpayers of the province.

The Royal Commission's proposal was to phase out SABA and fund increases directly from the four pension funds. The Select Committee has examined the proposal and agrees with the principle of the Royal Commission's proposal. SABA will have to be discontinued and its indexing should be provided by use of the excess interest approach. The approach should mean that unacceptable costs will be controlled.

116. The Select Committee endorses the Royal Commission's proposal, with an amendment to the initiation date, and recommends the Commission's proposal that:

RCPR

The Government of Ontario should take immediate steps to phase out the Public Service Superannuation Adjustment Fund (PSSAF), the Ryerson Adjustment Fund, the Caucus Employees Adjustment Fund, and the Teachers' Superannuation Adjustment Fund (TSAF) and in due course repeal the Superannuation Adjustment Benefits Act. In the interim, payments for adjustment should continue out of the four adjustment funds with all payments out of these funds to cease at December 31, 1983 and in the future to be made from the principal funds. All funds from the contributions by employees and the government as employer should be transferred to the Public Service Superannuation Fund, the Ryerson Pension Fund, the Caucus Employees Retirement Fund, and the Teachers' Superannuation Fund respectively as of that date. Any unfunded liabilities created by this change should be treated as initial unfunded liabilities and be amortized over 15 years in the respective funds.

The excess interest approach to indexing pensions ensures that the benefits of inflationary rates of return on invested funds accrue to the pensioner. The difference between the actuarially expected rate of return and the real rate of return is used to pay for indexation. This approach provides a stable and predictable contribution rate for inflation protection. The Select Committee recommends that:

SCPR

The excess interest approach should be adopted as the means for protecting public sector employees against inflation and that the Superannuation Adjustment Benefit Fund should be phased out as soon as possible.

117. - 120. If the Select Committee's recommendation with regard to the excess interest approach is accepted these Royal Commission proposals to implement changes in SABA would become unnecessary. The Select Committee, therefore, has no comments to make about these four recommendations.

Investment

Ontario public sector pension plans follow a wide range of investment strategies. Some plans may invest in private sector securities in Canada and may invest in a limited way abroad. Other plans may have securities administered by major financial institutions. Still other plans may only invest in non-marketable debt instruments of the province. The Royal Commission's greatest concern was for the last of these groups, because plans with investments only in non-marketable provincial debt are probably not earning the return they could. The Royal Commission's investment preference was for marketable securities. The Royal Commission was also concerned about the security of plan assets. But that can be reasonably guaranteed when plans choose low-risk and high-quality marketable

securities, with which higher earnings can be achieved. Those higher earnings are necessary if the excess interest approach is to be workable.

121. The Select Committee endorses, in part, the Royal Commission's proposal and recommends adoption of the Commission's proposal that:

RCPR

The Government of Ontario should adopt a policy of investment for all public sector pension funds, including the fund to be created for the PSSF, incorporating the following principles:

- a) all investments should be in the form of marketable securities;
- b) all funds and investments should be segregated from government funds, even on a short-term basis;
- c) book entries such as those currently used for the PSSF, and non-marketable securities such as those now used for the TSF should be discontinued and replaced as soon as practicable with marketable securities;
- d) all future investments should reflect market rates of return;
- e) some portion of the investment of a plan should be made in the private sector within the investment regulations of the Pension Benefits Act.

Cost

The very size of public sector pension plan coverage makes the issue of cost extremely important. There have already been some recommendations about identifying costs. The following proposals deal with managing costs and responsibilities for managing costs. The Royal Commission's proposal was to place responsibility fully on the Management Board of Cabinet. The Select Committee agrees that, in principle, Management Board should be responsible for cost management. But the Committee also has concerns about whether the control mechanism proposed by the Royal Commission, the budgetary process, would prove to be truly effective. This would be particularly true of plan costs where budgets are transferred from the government to the operating agency.

The Select Committee supports the principle that the responsibility for cost control of all public sector employment pension plans should be placed with the Management Board of Cabinet. But effective cost control cannot be exercised by budgetary means because transfer payments to municipalities, to hospitals, to school boards, to universities, and to Crown agencies are based on global budgets covering all eligible operating costs and not on specific types of expenditures. In addition, Ontario Hydro and Workmen's Compensation Board operating expenses are paid out of funds that are provided by their enabling legislation and not out of the Consolidated Revenue Fund. The costs of programmes under these agencies do not fall in any way under the province's budgetary control. Having considered these points the Select Committee must recommend an alternative approach to cost management. It is an alternative that the Royal Commission explored and rejected in Volume 6 of its recommendations.

122. The Select Committee recommends the establishment of a Public Sector Pension Board under and reporting to the Management Board of Cabinet which will:

SCPR

- a) make such recommendations to the Management Board of Cabinet as will result in consistent and cost-efficient pension benefits for public employees, bearing in mind the impact of any changes on the private sector;
- b) ensure that the costs of existing or projected pension benefits in the public sector are reported on a consistent and generally accepted basis;
- c) receive submissions from public employers, employees, unions, pensioners, plan administrators, and other interested parties, on pension benefits matters;
- d) recommend to the Management Board of Cabinet the organization and responsibilities of pension plan administrative boards and investment committees in the public sector, including provisions for appropriate employee representation;
- e) maintain such records as are necessary for the performance of its duties and require appropriate regular reporting from public sector pension plans.

123. The Royal Commission placed a number of responsibilities on the Treasurer for assisting Management Board with this recommendation. The responsibilities flowed from the previous recommendation, 122. The Select Committee does not believe that its suggestions in any way alter the Treasurer's responsibilities nor the Treasurer's role in the control of pension plan costs.

The Select Committee endorses proposals 123(a) and the Royal Commission in the original recommendation. The Committee could not, however, support, for the original 123(b) and 123(c) because matters of scrutiny and evaluation of pension plans in the public sector are now carried out by the most senior private actuaries in the province. Any changes in this should be done after consultation with and in concert with the actuarial profession. The Select Committee recommends that:

To assist Management Board in its responsibility, Treasury should assume two independent responsibilities relating to public sector pension plans:

- a) to set the inflation factor for use in determining salary scales and interest rates as required for actuarial valuations of public sector plans;
- b) to report periodically to the public on the operations of public sector pension plans, and in particular the cost of the plans in dollars and as a percentage of payroll and the cost-sharing between employer and employee; such report to be made annually for the PSSF, TSF, Hydro, HOOPP, OMERS, and WCB, and at least every three years for all other public sector pension plans.

The Select Committee recommends further that:

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The Royal Commission's proposals 123(b) and 123(c) should be deferred for consultation with the actuarial profession.

124. The Select Committee supports this Royal Commission recommendation in principle, subject to the qualifications

expressed in recommendation 123. The Select Committee recommends adoption of the Royal Commission's proposal that:

RCPR

Guidelines, similar to those developed by Management Board in 1976 for the five largest sector plans and the WCB, should be developed by Treasury in carrying out its recommended responsibilities of scrutinizing and evaluating the operation of all public sector plans for cost control purposes. The guidelines should incorporate the Commission's recommendations for funding (see recommendations 113 to 120 for public sector plans as well as recommendations 58 to 73 for funding in general).

125. The Select Committee agrees with the Royal Commission that no pension plan in the Ontario public sector should continue in a surplus position after all existing and potential future costs have been taken into account. Surpluses should be applied against present service costs. Ontario Regulation 654 (s. 2, ss. 5 and 12) provides a context for this proposal. The Select Committee, therefore, recommends adoption of the Royal Commission proposal that:

RCPR

Employers in a surplus funding position should apply immediately for a refund of the surplus pursuant to the Pension Benefits Act to be applied to the current service cost of the pension. No public sector pension plan should normally continue in a surplus position for more than one valuation period.

126. The Select Committee supports this recommendation, subject to reservations expressed in recommendation 123. The Committee considers, however, that all plans should be reviewed every three years, not every six years as suggested by the Royal Commission. The Select Committee recommends:

SCPR

The Treasury, in carrying out as recommended its responsibility of scrutinizing and evaluating the operation of all public sector plans, should review, at least every three years, the funding of all public sector pension plans through an examination of each plan, on a basis consistent for all the plans, to allow comparisons of funding among the plans. The results of such examination should be used by Management Board in assessing the future cost of all the plans, and for the purpose of reporting to the public.

127. The Select Committee has previously acknowledged the Management Board's responsibility and authority to control the costs of Ontario public sector pension plans. The Committee, therefore, sees no reason to comment on the possibility of changing public sector plans to a defined (money-purchase) contribution basis.

128. The Select Committee could not support the Royal Commission's recommendation for achieving parity between public sector and private sector pension plans as it was written. The Select Committee recommends instead that:

SCPR

The Government of Ontario should support the principle of parity between the costs of public and private sector employees in their total compensation package. Recommendations set out earlier in this report, if implemented, will materially improve the goal of obtaining parity between public and private sector pension plans.

Special Issues

A number of issues are covered in this last section concerning public sector pension plans. These include matters such as collective bargaining, reciprocal transfer agreements, the treatment of the judiciary, early retirement, and earnings-tests.

129. Presently some public sector pension plans may be open to the collective bargaining process. Others are not. For example, members of the PSSF, who are covered by the Crown Employees Collective Bargaining Act, are unable to bargain pensions. The Select Committee notes that while it might not yet be legal for public sector employees under CECBA to bargain pensions, discussion between employees and their employers is always useful. The Select Committee, therefore, recommends that:

SCPR

*

If provisions about a Public Sector Pension Board suggested under the Select Committee's earlier proposal, recommendation 122, are carried into effect meaningful discussion between the employer, the Government of Ontario, current employees, and pensioners should occur.

The Select Committee further recommends that:

SCPR

The Public Sector Pension Board should consider, at its first opportunity, the possibility of amendments to the Crown Employees Collective Bargaining Act to permit collective bargaining of pension issues.

130. The Select Committee endorses the Royal Commission's proposal and recommends adoption of the Commission's proposal that reciprocal transfer agreements should be reviewed and where necessary amended to ensure no undue losses to either employees or employers.

RCPR

The terms of reciprocal transfer agreements for public sector employees should be reviewed and, where necessary, altered to result in neither undue gain nor undue loss to the person making a transfer from one plan to another, and to ensure that the cost of additional benefits which become available upon transfer, such as improved benefits for past service with other plans, are fairly allocated between the employer and the employee.

131. In recognition of the fact that the judiciary of the province forms a separate arm of government, the Select Committee recommends adoption of the Royal Commission's proposal that a separate pension fund be established for members of the judiciary and that:

RCPR

A pension plan separate from that for public servants generally should be enacted for all members of the judiciary to whom Ontario's legislative powers extend.

132. The Select Committee endorses the Royal Commission's proposal and recommends adoption of the Commission's proposal that:

RCPR

The Government of Ontario should not take steps to lower the existing retirement ages at which unreduced pensions are available except where it can be demonstrated that unreduced pensions at earlier ages are a necessity for a special group. In those cases the additional cost of earlier unreduced retirement benefits should be fairly borne by employer and employees.

133. Some public sector pension plans impose an earnings-test on employees who, for a variety of reasons, may be drawing a

pension. The Select Committee notes that under certain circumstances this practice can lead to serious inequities. The Select Committee, therefore, endorses the Royal Commission's proposal and recommends adoption of the Commission's proposal that:

RCPR

All earnings and retirement tests should be abolished for retired employees who have attained the age of 65. Any other action should be determined after monitoring the effect of the Revenue Canada rules and examining its own re-employment policy so that public sector policy for re-employment conditions will be consistent with that in the private sector.

SPECIAL RETIREMENT CONCERNS

The last major group of Royal Commission proposals covers a number of topics. First, the Royal Commission examined the effects of inflation on retirement income. Secondly, the Royal Commission dealt with retirement age issues. Thirdly, the Commission considered the special pension problems of women. Fourthly, the Commission discussed regulatory matters, with special emphasis on taxation. Finally, the Royal Commission made a series of proposals touching on constitutional issues relating to pensions, because this is an area of shared legislative jurisdiction.

Inflation Protection

Inflation affects all Canadians. But people who are on fixed incomes are affected most. Inflation can very quickly erode the purchasing power of a pension and it can reduce a pension which was once regarded as adequate to a level of inadequacy.

The Royal Commission had a number of proposals to make on the subject of inflation protection. Among the suggestions was the inflation tax credit. Quite apart from continuing to support government retirement income programmes, the tax credit has been the centrepiece of the Royal Commission's recommendations to protect pensions against the effects of inflation. As proposed the credit system would have exempted taxes to persons whose income was below a certain level and who were 68 years of age and older. The Select Committee identified problems with this approach and these were outlined in the Committee's Interim Report. The Select Committee has its own proposal to make with regard to inflation protection, and this is discussed in the recommendations following.

Government Programmes

134. The Select Committee endorses this Royal Commission proposal and recommends the adoption of the Commission's proposal that:

RCPR

The annual income in retirement guaranteed by the Federal and Ontario governments should continue to be protected from inflation.

- a) The Old Age Security and Guaranteed Income Supplement programmes should continue to be indexed quarterly to increases in the Consumer Price Index. The Guaranteed Annual Income System (GAINS) should continue to reflect federal adjustments for inflation.
- b) The Canada Pension Plan should continue to be adjusted in accordance with the average industrial wage prior to retirement and annually in retirement in accordance with increases in the Consumer Price Index.

135. The Select Committee endorses this Royal Commission proposal and recommends adoption of the Commission's proposal that:

RCPR

The Consumer Price Index should continue to be the measure for indexing of government programmes, with no steps taken to develop a different index for those 65 and over.

Inflation Tax Credit

136. - 137. The Select Committee outlined some difficulties with the inflation tax credit in its Interim Report. The tax credit was criticized for:

the cumulative nature of the tax credit and problems with cost control. The eventual size of the credit could exceed CPP benefits within several years.

The credit would also only be available to those who are 68 and older. The Select Committee recognizes that there are many people under 68 years of age who would not be helped. Recommendation 137 would have, in the name of funding the credit, created the possibility of hurting people currently protected by provisions under the Income Tax Act. For these reasons the Select Committee could not endorse recommendations 136 and 137.

Employment Pensions

138. This recommendation applies to the indexing of employment pensions. The Select Committee's recommendation 139 below deals with the substance of this proposal.

139. Excess interest is the interest, due to inflation, above the real rate of return. There is some question as to just what the real rate is and how it should be calculated, but it is assumed to be between 2% and 4%.

Many actuaries have been using interest rates of 6% to 7% to fund plans in recent years; i.e., employer contributions have been made to fund benefits based on the assumption that all contributions would earn interest at these rates. For

these plans the interest earned in excess of this rate could be used to finance the augmentation of benefits without excessive cost increases to most employers.

Proposals have called for immediately requiring the augmentation of benefits by the amount of interest earned on the fund or the rate on government bonds less 6% or 7%. This rate could steadily be reduced until it reached the estimated real rate of 2% to 4%.

The excess interest would be calculated by subtracting the real rate from either the return on the plan or some external measure, such as average return on long-term government bonds in recent years. The external measure would ensure that pensions were augmented at a level which would keep pace with inflation. Where fund returns greatly exceeded the external measure, pensioners would not receive real gains. However, use of an external measure could influence funds to invest in a portfolio similar to this measure. It has been argued though that funds used to pay pensioners' benefits could be heavily invested in treasury bills, or other debt instruments which keep pace with inflation, while the funds of active members could be invested in equities and other high risk but potentially higher yield securities.

Just as the value of the benefits received by retirees is reduced by inflation, so is the value of the deferred vested benefits of a terminated employee. Without augmentation these benefits could be greatly reduced in real value by retirement age.

The Royal Commission had a proposal concerning the use of the excess interest approach. The Select Committee examined the proposal and found it to be too narrow in scope. The Select Committee decided to adopt a much broader approach and in its Interim Report made two recommendations.

The Select Committee confirms its earlier recommendation that:

SCPR

The principle of augmentation of
benefits for retired members of

employment pension plans and for members with deferred vested benefits should be accepted.

The Select Committee confirms its earlier recommendation that:

SCPR

The Pension Commission of Ontario should proceed with the development of legislation utilizing the excess interest approach with a phasing-in period to ease the cost impact.

These were recommendations 16 and 17 in the Select Committee's Interim Report.

Retirement Age

The topic of retirement age is one of great complexity. Any change from the widespread use of the 65 year benchmark would have enormous social and economic implications. In the debate about retirement age the Royal Commission acknowledged that it took no position on some of the issues. The Select Committee, similarly, feels that it cannot take a stand on some issues. Much more investigation and discussion would have to occur before the Select Committee would feel confident to make recommendations with regard to retirement age.

In general the Select Committee endorses the Royal Commission's stand on the need for flexibility in individual choice. But the Royal Commission did not favour flexibility when it came to the subject of government transfer payments. The lowering of the age of entitlement would significantly raise costs and could discourage older workers' participation in the labour force. On these and other points the Select Committee is in agreement with the Royal Commission. But as the Royal Commission recognized, this is an enormously complex topic and neither the Commission nor the Committee have exhausted discussion of these issues.

140. The Select Committee endorses the Royal Commission's proposal and recommends adoption of the Commission's proposal that:

RCPR

The Government of Ontario should take no steps to lower the age of eligibility for retirement benefits of federal or Ontario government programmes from the existing age of 65.

141. The Select Committee endorses the Royal Commission's proposal and recommends adoption of the Commission's proposal that:

RCPR

The Government of Ontario should take no steps to lower the age of eligibility for retirement benefits of federal or Ontario government programmes on an actuarially reduced basis.

142. The Select Committee endorses the Royal Commission's proposal and recommends adoption of the Commission's proposal that:

RCPR

The Pension Benefits Act should be amended to create an option for every member of an employment pension plan to elect early retirement under the plan on an actuarially reduced basis at any time between age 60 and age 65 or the normal retirement age under the plan, whichever is the earlier.

143. The Select Committee endorses the Royal Commission's proposal and recommends adoption of the Commission's proposal that:

RCPR

The Pension Benefits Act should be amended to create an option for every member of an employment pension plan who continues to work after normal retirement age under

the plan to postpone taking of the pension beyond normal retirement age and to accrue an actuarial increase in the pension until retirement.

144. The Select Committee endorses the Royal Commission's proposal and recommends adoption of the Commission's proposal that:

RCPR

The Government of Ontario in the absence of strong evidence of a need to encourage work-force participation beyond age 65, should take no steps to provide actuarially increased benefits in either federal or Ontario government programmes if taking of benefits is delayed past age 65. However, the accumulation of pension service credits for persons over 65, under the special provisions of the Canada Pension Plan, should continue.

Women and Pensions

The Royal Commission noted that pensions are not inherently discriminatory against women. However, conditions created by design and operation of pensions too often result in women receiving no pensions or pensions that are very much reduced in income value. The Royal Commission identified three factors in its Report as critical in contributing to the disadvantaged position of women:

- (i) their longevity continues to increase, thereby widening the gap between their life expectancy and that of men: women need income for longer periods of time and their incomes will be affected by inflation for longer periods;
- (ii) their positions, both actual and assumed, as non-working dependent wives: survivor benefits are inadequate even where available; elderly women, often widowed, rely heavily on government programmes;

- (iii) their subordinate role in the work-force in spite of the phenomenal rise in work-force participation, particularly of married women: women are less likely than men to be members of a pension plan; women have broken service patterns reflecting the effect of child-rearing; women are more likely to work on a part-time basis; women are in lower-paid occupations; women have greater job mobility; in all, women are more likely to receive a lower pension and are less likely to obtain any pension at all.

The Royal Commission made a number of recommendations in this section of its Report to improve pensions for women and to end discriminatory practices. These recommendations deal with support issues and discrimination in pension plan design. The Select Committee favours these Royal Commission proposals and recommends their adoption.

145. The Select Committee endorses the Royal Commission's proposal and recommends adoption of the Commission's proposal that:

RCPR

Under the Ontario Family Law Reform Act pensions should be regarded as income in retirement which may be a source of support in the event of marriage breakdown, and not treated as a capital asset.

146. The Select Committee endorses the Royal Commission's proposal and recommends adoption of the Commission's proposal that:

RCPR

In order to avoid existing difficulties in attaching pensions to satisfy support orders, consideration should be given to redrafting Section 30 of the Family Law Reform Act in consultation with the Pension Commission of Ontario.

147. The Select Committee endorses the Royal Commission's proposal and recommends adoption of the Commission's proposal that:

RCPR

The Province of Ontario should take no new steps to support the use of assumed need arising from marital status as a basis for employment pension design, for example, by requiring plans to provide a non-elective joint and survivor form of pension.

Government Regulation: Taxation

The income tax area is one in which both federal and provincial governments can provide strong incentives to those persons who are able to save for their retirement years. Income tax provisions can be used and should be used to foster individual responsibility. Government should do nothing to diminish the initiative and responsibility of individuals.

The income tax field is like the retirement age topic in that it is a broad, complex subject. The Royal Commission made a number of recommendations. But these do not by any means exhaust the possibilities of the use of the tax system as a means to foster retirement savings. The Select Committee would also like to note that there is much room in this field to improve pensions and retirement income savings.

148. The Select Committee endorses this Royal Commission proposal and recommends adoption of the Commission's proposal that:

RCPR

The Government of Ontario should consider with the federal government common goals for retirement income provision to be achieved by the interaction of federal tax policy and provincial social legislation.

149. This recommendation deals with encouraging saving for retirement income. The Select Committee reiterates its belief that people who are able to save should not be discouraged from saving by taxation policy. Every means should be afforded to make saving attractive and desirable because it is in the interest of the country and the province that people save for their retirement and not be discouraged from saving. The Select Committee endorses the Royal Commission's proposal and recommends adoption of the Commission's proposal that:

RCPR

Since the main goal of providing tax-sheltered funds is to finance retirement income, steps should be taken to curtail existing tax incentives for cash withdrawal from employment pensions before vesting.

150. The Select Committee endorses the Royal Commission's proposal and recommends adoption of the Commission's proposal that:

RCPR

Roll-overs of pension benefits and retiring allowances into RRSPs should be monitored to ensure that amounts in excess of reasonable retirement requirements are not thereby receiving tax shelter.

151. The Select Committee endorses the Royal Commission's proposal and notes the need for continuing dialogue on this subject. The Committee recommends adoption of the Royal Commission's proposal that:

RCPR

The Government of Ontario should consider with the federal government, against the background of tax treaty negotiations, the effect on Canada's capital markets and trade balance of situations in which tax-sheltered funds from retirement income vehicles may be diverted to other countries.

152. - 154. The Royal Commission made a number of recommendations to curb universality and to direct benefits to those most in need. Special retirement income provisions are something that the Select Committee endorses. But universal approaches should not be ruled out, particularly if curtailing a universal programme creates the risk that some persons who are less conspicuously in need are disadvantaged. The Select Committee could not, therefore, endorse the Royal Commission's recommendations to:

152. Make all exemptions and deductions reflect need and eliminate age and income deductions.

153. Restrict deductions if they could not be eliminated.

154. Make income-tested exemptions consider all income.

155. Currently tax deductible contributions for RRSPs are \$3,500 or 20% of income, whichever is less, for those persons who belong to a registered retirement plan. For those who do not belong to a plan the deduction is \$5,500 or 20%, whichever is less. The Royal Commission found that the percentage limitation was unrealistic. The Committee concurs with this assessment by the Royal Commission and, in keeping with the Committee's stated intention to encourage those who are able to save, the Select Committee recommends adoption of the Royal Commission's proposal that:

RCPR

Contributions for RRSPs should be permitted to the maximum dollar amounts specified, and the percentage limitation of earned income should be removed.

156. The Select Committee endorses this Royal Commission proposal and recommends adoption of the Commission's proposal that:

RCPR

Deductions by employer and employee for past service contributions to money-purchase plans should be permitted.

Constitutional Issues

In its Interim Report the Select Committee noted the importance of uniformity in pension legislation across Canada. The Select Committee remains committed to this belief and wishes to emphasize its previous recommendation that:

SCPR

Changes in pension legislation should be made in consultation with other jurisdictions, uniformity of pension legislation should be supported and encouraged, and existing integrating agencies such as the Canadian Association of Pension Supervisory Authorities should receive continued support.

The specifics of this recommendation are contained in the following six Royal Commission proposals, all of which the Select Committee endorses and recommends.

RCPR

157. The Government of Ontario should attempt to achieve changes in pension benefits legislation in consultation with other jurisdictions having pension legislation.

RCPR

158. The Government of Ontario should embrace the principle of uniformity in pension benefits legislation among all jurisdictions in Canada and support the principle in its own legislation as far as possible.

RCPR

159. The Government of Ontario should urge those provinces not now having pension benefits legislation to adopt legislation similar to that of Ontario.

RCPR

160. The Government of Ontario should take steps to initiate an agency similar to the Canadian Association of Pension Supervisory Authorities (CAPSA) but with the express purpose of encouraging uniformity of pension policy, through discussion and consultation among persons who have input to government at the policy level in their respective jurisdictions.

RCPR

161. The Government of Ontario should continue to support uniformity in pension regulation through CAPSA and assist in co-ordinating the role of CAPSA with that of any pension policy body that may be created.

RCPR

163. The Government of Ontario should pursue a policy of co-operation with the federal government in matters affecting pension policy, such as tax deductibility and tax-sheltered vehicles.

Recommendation 162 was PURS related and could not be endorsed at this time. The recommendation proposed that Ontario adopt PURS and urge other provinces to adopt similar plans.

Appendix 1: PENSION BENEFITS ACT CHANGES

- Recommendation 42. Vesting after five years service or plan membership.
- Recommendation 45. On termination an employee has the right to transfer at least 50% of the employee's locked-in benefit to a non-commutable RRSP or to a new pension plan.
- Recommendations 47, 48, 49 All benefits continue locked-in when they vest.
- Recommendation 51. An employer is not responsible for providing a deferred vested benefit once it has been transferred out of the employer's plan.
- Recommendation 55. Amendments with regards to the integration of plans.
- Recommendation 61. Actuarial reporting is to comply with PCO guidelines.
- Recommendation 62. Valuation guidelines concerning fixed income securities.
- Recommendation 64. An actuarial valuation balance sheet to be devised by the Canadian Institute of Actuaries, according to PCO guidelines.
- Recommendation 65. Valuations to be filed every three years, within 6 months of the fiscal year end.
- Recommendation 66. Valuations for public sector plans.

- Recommendation 68. Funding period of 15 years for initial unfunded liabilities and 5 years for experience deficiencies.
- Recommendation 70. Phasing out the "test valuation" period.
- Recommendation 71. Improvements and the treatment of unfunded liabilities under flat benefit design plans.
- Recommendation 72. The Act continues to apply to all employment pension plans.
- Recommendation 73. Funding post-retirement adjustments.
- Recommendation 74. Disclosure requirements in the event of plan termination or major change.
- Recommendation 75. Guarantee Fund.
- Recommendation 76. Priorities on plan termination.
- Recommendation 77. Priorities on plan termination.
- Recommendation 78. Statutory lien.
- Recommendation 79. PCO to be given right to intervene and to enforce lien in the event of insolvency.
- Recommendation 80. Request federal changes in bankruptcy legislation.
- Recommendation 81. When employer contributions are due and payable for money-purchase and defined benefit plans.
- Recommendation 82. PCO to assess problems with foreign assets and recommend changes to the Act.

- Recommendation 83. Disclosure requirements.
- Recommendation 84. Audit requirements.
- Recommendation 85. Audit requirements.
- Recommendation 86. Act changes to alter the PCO.
- Recommendation 87. PCO to review Act.
- Recommendation 88. PCO to make periodic reviews.
- Recommendation 90. Multi-employer plan changes.
- Recommendation 91. Multi-employer plan changes.
- Recommendation 93. Representation of plan members.
- Recommendation 94. Obligations of trustees.
- Recommendation 96. Changes implemented not later than 3 years after Royal assent.
- Recommendation 97. Part-time workers.
- Recommendation 100. Service requirements of one year and 30 years of age.
- Recommendation 104. Requirement to provide participating annuity and escalating annuity options.
- Recommendation 108. All public plans continued under Act.
- Recommendation 109. Act applies to Crown, agencies, and municipalities.
- Recommendation 110. Act has precedence over public plan Acts.

- Recommendation 114. Establishment of PSSF as a separate fund.
- Recommendation 121. Investment of public sector fund money.
- Recommendation 125. Surpluses in public funds.
- Recommendation 142. Amendments to have optional early retirement on an actuarially reduced basis.
- Recommendation 143. Actuarial increases for those who work after normal retirement age.

Appendix 2: ROYAL COMMISSION RECOMMENDATIONS
DEFERRED OR VARIED

Adequacy

9. For years after 1980, the Government of Ontario should consider adopting a standard linked to the minimum wage in Ontario for determining the adequacy of the level of income provided by government programmes. For example, such a minimum could be based on 70% of twice the minimum wage for a married couple both 65, and about 60% of the resulting amount for a single person, such amounts to be interpreted as "available income" and not as gross amounts.
10. The level established as adequate as determined from time to time by reference to the minimum wage standard should be increased on a yearly basis to reflect annual increases in the Consumer Price Index for periods between which there is no change in the minimum wage. When changes in the minimum wage are made, the standard should be assessed from time to time having regard to all the effects such change may have on the people of Ontario and the economy of Ontario and not just to the effect of changes in the Consumer Price Index on the minimum level of adequacy.

Actuarial Methods

58. The Pension Benefits Act or its regulations should be amended to limit the choice of actuarial funding methods (as defined in Volume II, Chapter 9) to the following:

Accrued Benefit-unprojected

Accrued Benefit-projected

Level Premium-constant dollar

Level Premium-constant per cent of salary, entry age normal

Level Premium-constant per cent of salary, attained age normal.

The Aggregate Funding Method and all other methods except the foregoing should be prohibited immediately for all new plans and be phased out within a reasonable time for existing plans.

59. The Pension Commission of Ontario should designate the plan types for which each of the permitted funding methods is appropriate.

General

3. The Government of Ontario should resist any move towards increasing existing benefits for the elderly now provided on a universal basis. Allocation of monies to provide income or services in retirement should be directed towards those in need.
5. The Government of Ontario should maintain the age of [65 as the age at which provision of retirement income or services on the basis need is made available out of government resources,] with any future change in the eligibility age to be made in concert for all government programs providing retirement income.

Inequities

13. In determining eligibility for government income-tested programmes and the amount of income provided, all income should be taken into account, including Workmen's Compensation benefits, veteran's allowances, and family allowances.
14. The Government of Ontario should seek the phasing-out of the Spouse's Allowance programme. Those requiring income assistance under age 65 should be cared for under the Family Benefits programme or similar programmes under the Canada Assistance Act.

Inflation Tax Credit

136. The Commission recommends that the Government of Ontario seek changes in the Income Tax Act (Canada) and the Income Tax Act (Ontario) to introduce a refundable Inflation Tax Credit for all residents of Ontario aged 68 and over to protect from inflation a measure of total retirement income above the level of government floor programmes (OAS, GIS, CPP, and GAINS), in step with cumulative changes in the Consumer Price Index. (One Commissioner dissented from this recommendation for the reasons set out in the text in Volume II, Chapter 10, under the heading "Inflation Tax Credit").

Insurance

75. No steps should be taken at this time to institute plan termination insurance or other third party guaranty of benefits promised under an employment pension plan.

137. With a view to contributing to the financing of such inflation protection, the Commission recommends that the Government of Ontario seek changes to the Income Tax Act system:

- a) to make all income from whatever source subject to income tax, including in particular Workmen's Compensation payments;
- b) to eliminate the present tax exemption related to age 65;
- c) to eliminate the present tax deduction for pension and annuity income.

Post-Retirement Adjustments

73. The Pension Benefits Act or its regulations should be amended to require that all post-retirement adjustments, whether or not linked in some fashion to changes in the Consumer Price Index and which are provided for in the pension plan document or out of any supplementary or other fund created for that purpose, be funded on the same basis as provided in the Act for basic benefits under the pension plan. This requirement should be phased in, effective for existing plans requiring actuarial evaluation from and after June 30, 1982, and should apply immediately to new plans. Any unfunded actuarial liabilities created by this change should be treated as

initial unfunded liabilities and be amortized over not more than 15 years, with annual payments to be not less than the annual payout in respect of such adjustments.

139. The Pension Benefits Act should be amended to require that every pension plan shall provide an employee retiring under the plan the option of a participating annuity. The employer may choose to purchase the participating annuity from an insurance company or to make pension payments directly from the fund. Where such annuity is payable from the pension fund the monies required to purchase such an annuity should be held in a segregated account with those for all other annuitants who have elected participating annuities, with such annuitants to share in any "excess interest" earned on the fund in each year. Where such annuity is paid out of the pension plan, the transfer of assets into the segregated account should be regulated by the Pension Commission of Ontario, including the setting of interest rates for the division of the fund and for the minimum annuity payable. The employer should receive any benefit for mortality gains and bear any loss for mortality losses, and should be responsible for guaranteeing the minimum annuity promised.

PURS

40. The Government of Ontario should institute by legislation a mandatory retirement savings plan for all workers in Ontario aged 18 to 64 with the following features:
- a) The Provincial Universal Retirement System (PURS) to be based on an individual account (money-purchase) design.
 - b) All contributions to be immediately vested and locked-in, with a refund of employee contributions to be available to those below the Year's Basic Exemption.

- c) All monies accruing in individual benefits accounts to be completely portable.

Contributions

- d) Contributions by employer and employee to be based on earnings up to the Average Industrial Wage (with YMPE and YBE the same as those of the CPP from year to year). Self-employed persons to contribute at the combined employer-employee rate.
- e) Levels of contribution to be determined by the government, based on the percentage of AIW it desires to be replaced when the plan is mature, e.g., 15% to 25%. Contributions to be divided equally between employer and employee except that employee contributions will be graduated. The lowest contributions will be made by employees between the ages of 18 to 30, higher contributions age 30 to 45, and full contributions age 45 to 65, but employer percentages will be the same for those aged 18 to 64. For example, employee contributions: age 18 to 30, 1% of pay to the YMPE ceiling; 30 to 45, 1 1/2%; 45 to 65, 2%; employer, 2% throughout; to provide about 20% replacement, based on the Commission's most probable assumptions.

Benefits

- f) The benefits, payable any time between age 65 and 71, to be in the form of a range of annuity options such as escalating and participating annuities; but where the employee at retirement has a spouse, the primary benefit must be a life annuity for the employee with at least 60% survivor benefit for the spouse, unless the spouse waives such benefit in writing.
- g) If the employee dies before withdrawing funds, the estate to succeed to the funds subject to survivor benefits as recommended. (See Recommendation 53).
- h) Annuities for male and female employees to be costed in such a fashion that equal monthly benefits will be provided for the same capital accumulation for males and females. (See Recommendation 105).

Deposit Vehicle

- i) The employee to have a choice of financial intermediary for the investment of his or her contributions and those of the employer. Financial intermediaries to be those now eligible for Registered Retirement Savings Plans and a central pension agency to be set up by the Government of Ontario. (See Recommendation 52).

Investments

- j) Funds to be invested in the same kinds of investment now permitted for pension funds in Ontario except that foreign investments would be excluded.

Administration

- k) Contributions to be made by payroll deduction and remitted together with employer contributions through Revenue Canada (Taxation) in a fashion similar to CPP contributions, or to the Ontario central pension agency, and thence to the designated financial intermediaries.

Income Tax Deductibility

- l) Contributions of employee, employer, and self-employed to be deductible for income tax purposes.

Opting out of PURS

- m) Employers may be allowed to opt out of PURS in strictly defined circumstances. (See Recommendation 107).

41. If the Government of Ontario enacts legislation for a Provincial Universal Retirement Savings Plan, the Pension Benefits Act should be amended to provide that the minimum vesting in all employment pension plans be upon completion of ten years' continuous service with an employer or ten years' membership in the pension plan, and that there be no age requirement.

56. Integration of employment pension plans with the mandatory plan recommended by the Commission should be permitted, provided that pension benefits accrued to the commencement of the mandatory plan should not be reduced by any payment from the mandatory plan.

98. If PURS is adopted, no employee should be compelled to join a contributory plan as a term or condition of employment.

99. If PURS is adopted, the employer sponsoring an employment pension plan should be permitted to adopt reasonable eligibility rules suitable to the particular requirements of the employer's work-force.
101. If PURS is adopted and has matured, there should be no locking-in of any part of an employee's contributions to employment pension plans.
102. If PURS is adopted, steps should be taken by the Government of Ontario (in conjunction with federal taxation authorities as required) to provide greater flexibility in the form of benefit available under registered pension plans beyond the present life annuity.
105. The proposed mandatory plan should incorporate such provisions as will ensure that annuities under the plan are calculated without regard to the sex of the annuitant on the basis of unisex mortality tables (Unanimous recommendation).
107. Opting-out of PURS by employers should be permitted if money-purchase benefits equal to those provided under PURS are included in an employment pension plan, subject to conditions determined from time to time by the Pension Commission of Ontario.
162. The Government of Ontario should adopt a mandatory retirement savings plan on a provincial basis, and encourage other provinces to adopt similar plans, with interrelation through reciprocal agreements; and, if feasible, administrative co-ordination with the Canada Pension Plan.

Public Sector Indexing

117. Post-retirement adjustments for persons who retired before January 1, 1976 and are receiving post-retirement adjustments out of the Consolidated Revenue Fund of Ontario, should continue on the present basis.
118. In the case of ad hoc adjustments made in public sector plans on a regular basis but outside the pension plan itself, the Government of Ontario should take steps to bring such payments within the framework of the pension plan for cost identification purposes.
119. The Government of Ontario should take no steps to adopt terminal funding for post-retirement adjustments or to extend the use of supplementary adjustment funds for the purpose of providing post-retirement adjustments outside the funding provisions of the Pension Benefits Act.
120. If the Government of Ontario is not prepared to abolish the SABA approach, as recommended, and continues the indexing of pension benefits out of a separate fund contributed to by government employees on an equal basis:
- a) the indexing promise should be changed from the present 8% cap with carry-over, so that the government responsibility is limited to its 1% contribution to the SABA fund;
 - b) the SABA fund should be operated on a pay-as-you-go basis with each employee being clearly warned that adjustments can be made only to the extent of the fund, and that they may not receive an adjustment when they retire;
 - c) consideration should be given to making participation in this fund voluntary for the employee;

- d) this approach should not be permitted for private sector plans.

Public Sector Management

122. Responsibility for cost control of all public sector pension plans should be placed with Management Board of Cabinet, with power to scrutinize the operation of each plan and to control the cost and obligations of each plan through budgetary control of the plan sponsor.
128. The Government of Ontario should seek to achieve parity with the private sector in total compensation of its employees, and in particular should not provide pension benefits more generous than those generally available in the private sector (measured by the full cost of such benefits). The government should not lead the way for the private sector, particularly in the areas of inflation adjustment and early retirement without actuarial reduction.
129. Pensions should be considered as appropriate for collective bargaining in the public sector subject to the acknowledgement that there may be some circumstances in which collective bargaining may not be practicable; no new areas for collective bargaining of pensions should be opened at this time.
- 123b. to scrutinize and evaluate from a true and total cost perspective the actual operating experience of each public sector pension plan and to report its findings to Management Board;
- 123c. to evaluate the true and total cost of proposals for change in each plan and determine the contribution

rates for both employees and employer to pay the full cost of such changes (all proposals to be submitted through Management Board to Treasury for costing before any such change is made) and to report its findings to Management Board; such findings to be available to the public on request.

Public Sector Plans and the Pension Benefits Act

72. The provisions of the Pension Benefits Act should apply to all employment pension plans in Ontario, whether in the public sector or the private sector. (For particulars of the effect of this principle in Ontario public sector employment pension plans, see Recommendations 108 to 111).
108. The government of Ontario should continue to support the principle that all public sector employment pension plans, being those directly or indirectly funded by government obligations or guarantees, come within the provisions of the Pension Benefits Act. Except as recommended for the Legislative Assembly Retirement Allowances Account (Recommendation (111)), no new exceptions should be made to permit continuance of an initial unfunded liability without provision for special payments to reduce such liability.
109. The Pension Benefits Act should be amended to specifically bind the Crown in the right of Ontario, its Crown agencies, its agents, its boards and commissions, and its municipalities to comply with the provisions of the Pension Benefits Act.
110. Any act or regulation governing a public sector pension plan whose provisions are not in accordance with the Pension Benefits Act should be amended immediately to

comply with all requirements of the Pension Benefits Act and to be subject to the requirements of the Pension Benefits Act.

111. The Pension Benefits Act should be amended to apply immediately to the Legislative Assembly Retirement Allowances Account in the same fashion as it now applies to public sector employees' plans. Any unfunded actuarial liability in the account at the effective date of such amendment should be treated as an initial unfunded liability on which interest only is payable under Section 1(13) of the regulations under the Pension Benefits Act, subject to the making of payments which may be necessary from year to year to fulfil cash flow requirements.

Role of Ontario

18. Programmes providing benefits on the basis of need, including all income-tested programmes and income-tested tax exemptions and credits, should take into account all income to eliminate double payments.

Service Requirement

100. If PURS is not adopted, the Pension Benefits Act should be amended to provide for a maximum service requirement of two years for those aged 35 and under, and of one year for those over 35.

Tax Changes

152. The Government of Ontario should seek amendment to the Income Tax Act (Canada) and make complementary amendments to the Income Tax Act (Ontario) and any other fiscal statutes, to base exemptions and deductions on a needs basis where these are now universal and in particular to replace the present age exemptions and the present pension deduction by other relief administered on a needs basis.
153. If the pension income deduction is to be retained, a minimum age should be adopted to avoid encouraging early retirement.
154. Income-tested tax exemptions and credits should take into account all income.

Unisex Tables

106. The Government of Ontario should take steps to ensure that all annuities purchased for money-purchase pension plans and RRSPs as well as for PURS, if adopted, are calculated without regard to the sex of the annuitant on the basis of unisex mortality tables. (Two Commissioners dissented from this recommendation - see Anti-Discrimination Legislation, in Volume III, Chapter 16).

Appendix 3: INDEX

Audit: R84, R85

Canada Pension Plan

- appeals procedure: R37
- benefit levels: R29, R31, R33, R35, R39
- child-rearing dropout: R32
- contribution rates: R25, R26, R29, R39
- credit splitting: R34
- eligibility: R31, R36, R39, R140, R141
- funding: R24, R25, R26, R27, R28, R29
- indexing: R2, R38, R134
- investment: R30
- retirement age: R36, R39, R140, R141
- survivor benefits: R33, R35

Canadian Co-ordinating

Committee on Multi-

Employer Plans R92

Central Pension Agency: R52

Canadian Institute of

Actuaries: R58, R60, R63, R64, R75, R123

Canadian Institute of

Chartered Accountants: R63

Contributions

- Canada Pension Plan: R25, R26, R29, R39
- employment pensions: R43, R44, R78, R79, R80, R81

Crown Employees Collective

Bargaining Act: R129

Disclosure: R52, R57, R74, R83, R84, R112

Eligibility

- Canada Pension Plan: R31, R36, R39, R140, R141
- employment pensions: R97, R98, R99, R100, R142
- government programmes: R5, R13, R17, R140, R141

Employment Pensions

- audit: R84, R85
- Central Pension Agency: R52
- contributions: R78, R79, R81
- commutation of rights: R48
- disclosure: R52, R57, R74, R83, R84, R112
- eligibility: R97, R98, R99, R100, R142
- Family Law Reform Act: R145, R146
- garnishment: R95
- investment: R52, R82, R94
- integration: R55, R56, R57
- lien for unpaid
 - contributions: R78, R79
- life annuities: R46, R47, R49, R51, R54, R77, R103, R139
- locking-in: R47, R51, R101
- multi-employer plans: R83, R84, R90, R91, R92
- part-time employees: R97
- Pension Benefits Act: R42, R48, R49, R51, R52, R55, R58, R61, R62, R64, R65, R66, R68, R70, R71, R72, R73, R74, R76, R77, R78, R79, R80, R81, R82, R83, R84, R85, R86, R87, R88, R90, R91, R93, R94, R96, R97, R100, R108, R109, R110, R111, R121, R125, R139, R142, R143
- Pension Commission
 - of Ontario: R44, R49, R57, R59, R60, R61, R64, R69, R71, R79, R82, R85, R86, R87, R88, R89, R92, R93, R95, R96, R103, R115, R139, R146

- plan termination: R74, R75, R76, R77, R78, R79, R80
- PURS: R40
- representation of
 - plan members: R93
- situs of assets: R82
- survivor benefits: R53, R54, R147
- termination rights: R43, R44, R45, R46, R48, R50, R51, R52, R76, R77, R83
- trustees: R94
- uniformity: R52, R157, R158, R159, R161
- vesting: R42, R44
- wind-up priorities: R76, R77

Excess interest approach: R116, R139

Funding CPP: R24, R25, R26, R27, R28, R29

Funding Employment Pensions

- actuarial assumptions: R60
- actuarial methods: R58, R59
- actuarial valuations: R61, R62, R63, R64, R65, R66, R67, R72, R84
- amortization: R68, R69, R70
- indexing: R73
- plan improvements: R71
- post-retirement
 - adjustments: R73
- test valuation: R70
- time for payments: R81

Funding Public Sector Plans

- actuarial valuations: R66, R67, R72, R115
- compliance with
 - Pension Benefits Act: R72, R108, R109, R110
- matching contributions: R113

- separate funds: R114
- Superannuation
Adjustment Fund: R116

GAINS: R4, R5, R16, R17, R21, R22, R23,
R134

Government Minimum Level

Guarantee: R1, R3, R4, R5, R6, R7, R8, R9,
R10, R11, R12, R13, R14, R15, R16,
R17, R18, R20, R22, R134, R141,
R144

GIS: R2, R5, R20, R134

Indexing

- Consumer Price Index: R10, R135
- employment pensions: R46, R73, R138
- excess interest
approach: R116, R139
- government programmes: R2, R10, R38, R134
- public sector plans: R116

Inflation

- Consumer Price Index: R135
- Inflation Tax Credit: R17, R136, R137

Integration: R55, R56, R57

Investment

- Canada Pension Plan: R30
- employment pensions: R52, R82, R94
- public sector plan: R121
- situs of assets: R82

Life Annuities

- deferred: R46, R47, R49, R77
- generally: R103
- joint and survivor: R54
- participating: R139
- unisex: R106

Locking-in: R47, R51

Multi-Employer Plans: R83, R84, R90, R91, R92

Old Age Security: R2, R3, R5, R19, R55, R134

Part-time Employees: R97

Pension Benefits Act: R42, R48, R49, R51, R52, R55, R58, R61, R62, R64, R65, R66, R68, R70, R71, R72, R73, R74, R76, R77, R78, R79, R80, R81, R82, R83, R84, R85, R86, R87, R88, R90, R91, R93, R94, R96, R97, R100, R108, R109, R110, R111, R121, R125, R139, R142, R143

Pension Commission of
Ontario:

R44, R49, R57, R59, R60, R61, R64, R69, R71, R79, R82, R85, R86, R87, R88, R89, R92, R93, R94, R95, R96, R103, R115, R139, R146

Plan Termination

- general: R74, R75, R76, R77, R78, R79, R80
- guarantee fund: R75
- insolvency: R78, R79, R80
- insurance: R75
- priorities: R76, R77

- protected rights: R76
- role of PCO: R86
- statutory lien: R79

Portability

- reciprocal transfer agreements: R130,
- vesting: R42, R44

PURS

- generally: R40
- deferred recommendations R40, R41, R45, R50, R52, R56, R98, R99, R101, R102, R104, R105, R107

Public Sector Pension

- Board: R122

Public Sector Plans

- change from defined benefit: R127
- collective bargaining: R129
- compliance with Pension Benefits Act: R72, R108, R109, R110
- cost: R112, R122, R123, R124
- early unreduced retirement benefits: R132
- earnings-test: R133
- funding: R108, R109, R110, R113, R114, R116
- indexing: R116
- investment: R121
- LARAA: R111
- Management Board of Cabinet: R122, R123, R126, R127
- parity with private

| | |
|-----------------------------------|------------------|
| sector: | R128 |
| - provincial judges: | R131 |
| - Public Sector Pension Board: | R122, R129 |
| - public service superannuation: | R114, R116 |
| - reciprocal transfer agreements: | R130 |
| - <u>SABA</u> : | R116, R120 |
| - Treasury: | R123, R124, R126 |

Retirement Age

| | |
|-----------------------------|--------------------------------|
| - Canada Pension Plan: | R36, R39, R140, R141 |
| - employment pension plans: | R142, R143, R153 |
| - government programmes: | R5, R14, R17, R140, R141, R144 |

| | |
|---------------------|-------------|
| Spouse's Allowance: | R2, R5, R14 |
|---------------------|-------------|

Survivor Benefits

| | |
|---------------------------------|----------------|
| - Canada Pension Plan: | R33, R35 |
| - employment pension plans: | R53, R54, R147 |
| - joint and survivor annuities: | R54 |

| | |
|-----------|--|
| Taxation: | R17, R19, R20, R136, R137, R148, R149, R150, R151, R152 R153, R154, R155, R156, R163 |
|-----------|--|

Termination Rights

| | |
|------------------------|--|
| - employment pensions: | R43, R44, R46, R48, R51, R52, R76, R77, R83 |
|------------------------|--|

Uniformity

- employment pensions: R52
- generally: R157, R158, R159, R160, R161, R163

Unisex Tables: R106

Vesting: R42, R44

Wind-up Priorities: R76, R77

Appendix 4: GLOSSARY OF PENSION TERMS

Any discussion of a field such as pensions necessarily involves technical language. To make the technical terms used in this Report comprehensible this glossary has been provided.

ACCRUED PENSION - Amount of pension credited to a plan member according to service, earnings, etc., up to a given time.

ACTUARIAL ASSUMPTION - In an actuarial valuation, a set of estimates of future developments affecting the cost of benefits to be provided under a pension plan (e.g., mortality, salary increases, investment return, employee turnover, retirement ages).

ACTUARIAL VALUATION - Examination of a pension plan by an actuary to assess the solvency of the plan and determine the level of contributions required to maintain its solvency.

ACTUARY - A professionally trained specialist in the pension and insurance fields. In Canada, full professional recognition requires membership in the Canadian Institute of Actuaries.

ADDITIONAL VOLUNTARY CONTRIBUTIONS - Contributions to a pension plan, made voluntarily by an employee in addition to those required for specific plan benefits. Extra benefits are purchased by the additional contributions but no additional cost is borne by the employer.

ADEQUACY- A social judgement applied to determine the amount of income to be provided through government programmes to the elderly - in this report, persons aged 65 and over.

AD HOC ADJUSTMENT - Amount added to a pension after retirement, on an irregular basis and not as a result of a prior commitment or contract. To be distinguished from indexing.

AGE PENSION - Term used to distinguish pensions payable on account of a person's age from those payable in event of disability, etc.

AMORTIZATION PERIOD - Period of years over which payments are made into a pension plan to meet the cost of benefits that have not been fully funded. (See Unfunded liability.)

ANNUITY - In pension terminology, periodic payments (usually monthly) provided by the terms of a contract for the lifetime of an individual (the annuitant); may be a fixed or varying amount, and may continue for a period after the annuitant's death. (See Guaranteed annuity; Joint and survivor annuity; Straight life annuity; Level income option; Participating annuity; Variable annuity; Normal form of benefit; Optional form of benefit.)

ANNUITY RATE - Price charged by an issuer of annuities to provide a dollar of annuity (usually per month) under specified conditions to an individual based on the person's age, interest rates, etc.

AVAILABLE INCOME - Total dollar value of money income and other benefits received by an individual.

AVERAGE INDUSTRIAL WAGE - The Industrial Composite of Wages and Salaries (weekly) as measured by Statistics Canada and reported in Employment, Earnings and Hours (Cat. 72-002).

BENEFICIARY - In a pension plan, a person who, on the death of a plan member or pensioner, may become entitled to a benefit under the plan. (See Survivor benefits, Death benefits.)

BENEFIT - Generally, any form of payment to which a person may become entitled under the terms of a plan; often refers specifically to the normal pension provided by the plan formula.

BENEFIT FORMULA - Provision in a pension plan for calculating a member's defined benefit according to years of service, earnings (career or final average), a fixed dollar amount, etc. (See Flat benefit formula; Career average formula; Final average (earnings) formula; Defined contribution (money-purchase) plan.)

BEST EARNINGS FORMULA - A defined benefit formula which applies the unit of benefit credit for each year of service to the member's average earnings for a specified period of highest earnings (e.g., best five of the last ten years of service). (See also Final average (earnings) formula; Final earnings formula.)

CAREER AVERAGE FORMULA - A defined benefit formula which applies the unit of benefit to earnings of the member in each year of service, and not to final or final average earnings.

CASH WITHDRAWAL - A return of personal pension contribution to a member whose employment is terminated.

CHILD-REARING DROPOUT - Provision in Quebec Pension Plan (and Canada Pension Plan, subject to approval of provinces) under which allowance is made for months in which no (or low) contributions were made while the contributor was raising children.

COMMUTED VALUE - Amount of an immediate lump-sum payment estimated to be equal in value to a future series of payments. (See also Present value.)

COMPULSORY PLAN - A pension plan which eligible employees must join as a condition of employment.

COMPULSORY RETIREMENT - Provision in a pension plan, collective agreement or employer's rules requiring that an employee must retire at a certain age or under other specified conditions.

CONTINUOUS SERVICE - Period during which an employee is continuously employed by the same employer; may be defined in pension plan (or by law) so as to include certain periods of absence, and service with an associated or predecessor employer. To be distinguished from Credited service.

CONTRIBUTION INTEGRATION - Provision for reducing the required contributions to a pension plan by contributions prescribed in the Canada Pension Plan (or QPP). To be distinguished from treatment of contributions in Step-rate integration.

CONTRIBUTORY PLAN - A pension plan which requires the employees to make contributions by payroll deduction in order to qualify for benefits under the plan.

COST CERTIFICATE - The certificate of an actuary, based on an actuarial valuation, setting out costs and contributions required under an employment pension plan. Under pension benefits legislation a cost certificate must be filed when a plan is established and at least every three years thereafter, and when the plan is amended.

CREDITED SERVICE - Periods of employment counted in calculating the amount of pension; may also be a basis of qualifying for a particular type of benefit. (See also Continuous service.)

CURRENT SERVICE - Period of service of an employee after becoming a member of a pension plan. Current service cost usually refers to the cost of benefits credited to members of a plan in a given year. (See also Past service; Unfunded liability.)

DEATH BENEFIT - A lump sum (usually), payable from a pension plan to the beneficiary or estate of a member who dies before retirement. May refer to a payment on death after retirement. (See also Survivor benefit; Guaranteed annuity; Joint and survivor annuity.)

DEFERRED PROFIT SHARING PLAN (DPSP) - Type of profit sharing plan defined in the Income Tax Act, often used as a defined contribution pension plan. Employee contributions are not deductible from income for tax purposes. (See also Profit sharing pension plan; Employees profit sharing plan.)

DEFERRED VESTED PENSION (ANNUITY) - A specified pension determined at the time of termination of employment or termination of a plan, but not payable until some later date, usually normal retirement age. (See Vesting.)

DEFINED BENEFIT PLAN - A plan which defines the pension to be provided (based on service, average earnings, etc.) but not the total contributions. If plan is contributory, the rate of employee contributions may be specified, with the employer paying the balance of cost. To be distinguished from defined contribution plan.

DEFINED CONTRIBUTION (MONEY-PURCHASE) PLAN - Plan which defines contributions to be made by employer and employees, but not the benefit formula. Accumulated contributions and interest are used to purchase an annuity for the member. To be distinguished from Defined benefit plan.

DEPENDENCY RATIO - A demographic expression of the economic relationship of the population outside the labour force to those in the labour force in a given year. Term may refer to all who are inactive (in the economic sense) or just those considered to have retired.

DEPENDENT CHILD'S BENEFIT - Under the Canada Pension Plan (or QPP), a monthly amount payable to each dependent child of a disability pensioner or deceased contributor.

DEPOSIT ADMINISTRATION - A contract with an insurance company to administer a pension plan, but with the employer responsible for solvency until funds are used to purchase annuities, usually at the time of retirement. (See also Insured pension plan.)

DISABILITY PENSION - Pension payable to an employee permanently incapacitated due to physical or mental disability.

DISCOUNTED COST - Present value of benefits payable in the future, taking into account estimates of future investment yield and the probability that plan members will live and remain in the plan long enough to qualify for payment of benefits.

DIVISION OF PENSION CREDITS - Also known as "credit splitting", a provision in the Canada Pension Plan (and QPP) whereby one spouse, on dissolution of marriage, may obtain an equal division of pension credits earned by one or both partners during the period of marriage.

DROP-OUT MONTHS - Under the Canada Pension Plan, certain low-earnings months which are not counted in calculating average contributory earnings on which the contributor's pension is based.

DUES-PAID PLAN - Pensions provided for members of a trade union, financed entirely by regular dues payments, without participation by employers.

EARLY RETIREMENT - Provision in a pension plan for retirement earlier than the normal pension age. The amount of pension credited under the plan formula may be reduced according to the member's attained age; or an unreduced pension may be payable if a specified service condition (e.g., 30 years) has been met. (See also Special retirement.)

EARNINGS - A person's money income from employment or self-employment; usually excludes such forms of income as rents or bond interest. In some pension plans certain bonuses, sick pay, etc., may be excluded in calculating benefits.

EARNINGS-RELATED PLAN - Any plan with a benefit formula based on earnings as opposed to flat benefits.

EARNINGS TEST - A form of retirement test in which eligibility for a specified pension or supplement is determined on the basis of a person's earnings during a certain period.

ELIGIBILITY REQUIREMENT - A condition such as age or length of service that must be met before an employee is permitted or required to join a pension plan. Term may refer to eligibility for certain benefits.

EMPLOYEE-PAY-ALL PLAN - Any pension or retirement savings plan that is organized for or by a group of employees but is not financed by an employer. (See also Dues-paid plan.)

EMPLOYEES PROFIT SHARING PLAN (EPSP) - A plan, defined in the Income Tax Act, under which employer contributions must be declared as income by the employee, and employee contributions are not deductible. Benefit payments out of the fund are generally tax-free. (See also Deferred profit sharing plan; Profit sharing pension plan.)

ENTRY AGE NORMAL - A costing method used in arriving at a level premium cost for a group. It bases costs on the average career of employees from an assumed average age of entry into the plan to normal retirement age. (See Level premium funding; Single premium funding.)

EXCESS EARNINGS - In discussion of inflation, earnings from investments of a pension fund in excess of an assumed or expected rate of return.

EXPERIENCE DEFICIENCY - An unfunded liability, revealed by an actuarial review of a pension plan, resulting from a difference between actual experience (investment earnings, salary levels, etc.) and assumptions made at the time of a previous valuation.

FINAL AVERAGE (EARNINGS) FORMULA - A defined benefit formula which applies the unit of benefit credited for each year of service to the member's average earnings for a specified number of years just before retirement. (See also Final earnings formula; Best earnings formula.)

FINAL EARNINGS FORMULA - A defined benefit formula which applies the unit of benefit credited for each year of service to the member's final salary rate or annual earnings immediately before retirement. (See also Final average (earnings) formula; Best earnings formula.)

FINAL PAY PLAN - Term commonly used for any pension plan whose benefits are based on earnings in a member's last years of service. (See Final average (earnings) formula; Final earnings formula; Best earnings formula.)

FLAT BENEFIT FORMULA - A defined benefit formula which specifies a dollar amount of pension to be credited for each year of service. Term should be distinguished from Flat rate pension.

FLAT RATE PENSION - A defined benefit expressed as a dollar amount of monthly pension, not related to service or earnings, but paid on retirement after meeting certain qualifying conditions. (See, for example, Old Age Security.)

FULLY FUNDED - Term describing a plan which, at a given time, has sufficient assets to provide for all pensions and other benefits in respect of service up to that date.

FUNDED RATIO - Ratio of the assets of a pension plan to its liabilities.

FUNDING - Systematic payments into a fund which, investment earnings, are expected to provide for all pensions and other benefits as they become payable. (See Fully funded; Provisionally funded; Terminal funding.)

FUTURE SERVICE BENEFIT - Term used to refer to a current service benefit formula that differs from that for past service. (See also Current service; Past service.)

GOING CONCERN BASIS - Refers to the assumption, when making an actuarial valuation, that the pension plan will continue in operation indefinitely.

GROUP ANNUITY - A contract under which an insurance company agrees to provide retirement pensions to members of a group.

GUARANTEED ANNUAL INCOME SYSTEM (GAINS) - An Ontario government programme providing monthly income supplements to certain needy residents, based on a guaranteed amount of annual total income. "GAINS-A" benefits apply to those aged 65 and over; "GAINS-D" benefits are for the blind and disabled.

GUARANTEED ANNUITY - An annuity which will be paid for the lifetime of a person, but in any event for a minimum period; e.g., if an annuity is guaranteed for five years and the annuitant dies after three years, payments will be continued to a beneficiary or the estate for two years. (See also Survivor benefits.)

GUARANTEED INCOME SUPPLEMENT (GIS) - A monthly payment under the federal Old Age Security Act to needy recipients of the OAS pension, based on a guaranteed minimum income amount. (See Old Age Security; Guaranteed Annual Income System (GAINS); Spouse's Allowance.)

INCOME SUPPLEMENT - A regular payment made to a person, usually on the basis of need or other special circumstances, in addition to other income such as earnings or pensions. (See Guaranteed Income Supplement; Guaranteed Annual Income System (GAINS); Spouse's Allowance.)

INCOME TEST - Method by which the income of a person or family is taken into account in determining eligibility for (or amount of) a payment under a government programme. (See Guaranteed Income Supplement; Guaranteed Annual Income System (GAINS); Spouse's Allowance.)

INDEXING - Provision for periodically adjusting a benefit amount (usually after retirement) according to a formula based on a recognized index of price or wage levels, e.g., the Consumer Price Index. To be distinguished from ad hoc adjustment.

INDIVIDUAL ANNUITY - Annuity purchased for an individual and held in trust by the employer until the person's retirement. Plan may be referred to as a pension trust.

INFLATION TAX CREDIT - A system of tax credit recommended by the Royal Commission.

INSURED PENSION PLAN - A plan in which all benefits are purchased from and guaranteed by an insurance company as contributions are received.

INTEGRATION - Provision in a pension plan which relates plan contributions and/or benefits to those of a government pension programme, e.g., Canada Pension Plan. Not to be confused with level income option. (See also Contribution integration; Step-rate integration; Offset integration.)

INVESTMENT RETURN (YIELD) - Earnings of a pension fund including interest on fixed income securities (bonds, mortgages, etc.) dividends, capital gains, etc.

JOINT ADMINISTRATION - Provision for a union-management committee or board to assume supervisory functions relating to a pension plan. May include provisions for final and binding settlement of disputes.

JOINT AND SURVIVOR ANNUITY - An annuity payable until the death of the retired employee, and continuing thereafter to the surviving widow or widower until that person's death. Commonly provided as an option at the time of retirement; may be available as a level amount or with reduction when one annuitant dies. (See also Survivor benefit.)

LEVEL INCOME OPTION - Also referred to as a "notched" option; provision for employee, at time of retirement, to elect an increased pension, subject to a reduction by a specified amount when the retiree becomes eligible for pension under a government programme. To be distinguished from integration.

LEVEL PREMIUM FUNDING - Funding method in which equal annual payments, per employee or a percentage of payroll, are contributed to a pension fund over the estimated working life of employees in a pension plan to fund all benefits under the plan. To be distinguished from single premium funding.

LIFE EXPECTANCY - Number of years a person of given sex and age is expected to live, based on statistics of mortality. (See Mortality table.)

LOADING - An amount added to the estimated cost of a pension plan to provide for expenses of a variable or minor nature; e.g., special retirement pensions, trustee fees.

LOCKING-IN - Requirement under legislation that pension contributions made after a certain date cannot be withdrawn or otherwise forfeited if the employee on termination of employment has attained a certain age or has completed a certain period of service or plan membership. (See Vesting.)

MANDATORY PENSION PLAN - An employment pension plan which employers are required by law to establish and maintain for their employees. (See also Provincial Universal Retirement System (PURS).)

MEANS-TEST - Method by which a person's assets as well as income are taken into account in determining eligibility for or amount of payment under a government programme.

MINIMUM WAGE - Lowest rate of pay an employer may pay to an employee according to applicable provincial or federal minimum wage legislation.

MORTALITY TABLE - A table showing expected rates of death at various ages for people born in various periods. Used by actuaries to arrive at mortality assumptions when estimating the cost of pensions for a group. Term unisex is used when mortality estimates for males and females are combined in a single table.

MULTI-EMPLOYER PLAN - A pension plan covering employees of more than one employer, usually by agreement with a union or group of unions.

NEEDS TEST - Method of assessing a person's or family's expenditure requirements (shelter, food, fuel, etc.) in relation to other income or means, to determine amount of income support to be provided under a government programme (e.g., in most provincial family benefit programmes.) (See also Income test; Means-test.)

NET REPLACEMENT RATIO - Measurement of adequacy of retirement income by relating it to income immediately before retirement, taking into account income taxes, tax credits, etc.

NON-CONTRIBUTORY PLAN - A pension plan in which all required contributions are made by the employer.

NON-PENSION BENEFIT - Any benefit or privilege provided by government or private organizations to retired persons; e.g., employer-paid life insurance; free prescription drugs; reduced fares for transportation; subsidized housing.

NORMAL COST - Amount of annual contribution required to pay for the current service cost of a pension plan. Term usually refers to a level premium, based on a "normal" age assumption (e.g., entry age normal form of benefit.)

NORMAL FORM OF BENEFIT - Amount and other features of the annuity (pension) payable on retirement unless the plan member elects an optional form of benefit.

NORMAL PENSION - Amount of pension, according to the benefit formula, to which an employee is or would be entitled on reaching normal retirement age, based on earnings and/or service. (See also Benefit formula; Early retirement.)

NORMAL RETIREMENT AGE - The age specified in a pension plan at which employees are expected to retire; may be the earliest age at which an unreduced pension is payable. (See also Early retirement; Normal pension.)

OFFSET - Generally, the amount of one type of benefit used to reduce the amount of another benefit payable to a person (e.g., a disability pension where disability insurance benefits are provided by the same employer.)

OFFSET INTEGRATION - Provision in a pension plan for directly reducing a plan benefit by all or a portion of pensions payable to the individual from a government programme. (See also Step-rate integration; Contribution integration.)

OLD AGE SECURITY (OAS) - Federal programme providing a universal, flat rate pension to all residents aged 65 and over, regardless of need; also provides income-tested supplements. (See also Guaranteed Income Supplement; Spouse's Allowance.)

OPTIONAL FORM OF BENEFIT - Form of annuity which a plan member may elect on retirement, differing from the normal form of benefit in amount and other conditions but of actuarially equivalent value. (See also Guaranteed annuity; Joint and survivor annuity; Straight life annuity; Level income option; Participating annuity; Variable annuity.)

PARTICIPATING ANNUITY - A form of annuity in which the contractual amount of regular payments may be increased to reflect investment returns that are higher than originally assumed.

PAST SERVICE - Period of service of an employee before becoming a member of a pension plan. Term may be used to define certain benefits that differ from those of current service (future service). (See also Current service; Future service; Unfunded liability.)

PAY-AS-YOU-GO PLAN - Term used for benefits that are not funded except as and when they are paid to individuals; i.e., payment is made from current revenue or other sources outside the plan as such.

PENSION - Generally, any regular periodic payment to a person who has retired from the service of an employer or has met certain age or other conditions for payments under a government pension programme. (See also Annuity.)

PENSIONABLE EARNINGS - Defined portion of an individual's total earnings, used in calculating pension entitlement, excluding certain bonuses. (See also Year's Maximum Pensionable Earnings (YMPE).)

PENSION BENEFITS LEGISLATION - Laws and regulations under which employment pension plans must be registered and meet prescribed standards relating to vesting, solvency, investments, such as Ontario's Pension Benefits Act.

PENSION BOARD (COMMITTEE) - Group of persons designated according to the terms of a pension plan to oversee various administrative functions. Members may be trustees of the plan.

PENSION COMMISSION OF ONTARIO - Commission responsible for administering the Pension Benefits Act.

PENSION PLAN - A plan organized and administered to provide a regular income for the lifetime of retired members; other benefits that may be provided include payments on permanent disability, death, etc. (See also Annuity.)

PLAN TERMINATION - Discontinuance of an employment pension plan, voluntary or involuntary (e.g., as in bankruptcy); wind-up procedure regulated by pension benefits legislation. (See also Priorities.)

POOLED FUND - Funds of two or more pension plans, held by a financial institution and combined for investment purposes in a single fund, each plan sharing rateably in the net income from investments.

POOLING - In pension plans, a term used to describe any method by which certain risks or costs are shared by all members of a group, and certain group advantages are gained.

PORTABILITY - Extent to which an individual is provided on retirement with pension income which recognizes all periods of employment with various employers. (See also Vesting.)

POSTPONED (LATE) RETIREMENT - Retirement of a member later than the time prescribed for normal retirement.

PRESENT VALUE - Amount of money which, if invested today at a given rate of compound interest would provide a defined benefit commencing at a specified future date.

PRIORITIES (PLAN TERMINATION) - A set of rules, in an employment pension plan or legislation, under which the assets of a plan that is discontinued are allocated among members and beneficiaries to provide as far as possible for all accrued benefits.

PRIVATE SECTOR PLAN - An employment pension plan offered by an employer or by employers and unions (multi-employer plan) in the private sector.

PROFIT SHARING PENSION PLAN (PSPP) - Type of plan defined in the Income Tax Act; money-purchase, with the employer's contribution expressed as a share of profits but subject to a minimum annual amount equal to 1 percent of member's earnings. (See also Defined contribution plan; Deferred profit sharing plan; Employees profit sharing plan.)

PROVINCIAL UNIVERSAL RETIREMENT SYSTEM (PURS) - Mandatory pension plan to be provided by all employers.

PROVISIONALLY FUNDED - In pension benefits legislation, term used to describe a pension plan that is not fully funded but is "solvent" - i.e., current service costs are being met year by year, and special payments are being made to amortize all unfunded liabilities.

PUBLIC PENSION PROGRAMME (PLAN) - Also referred to as "government programme". A legislative programme providing pension benefits from the government in its role as a government rather than its role as an employer; e.g., Old Age Security, Canada Pension Plan.

PUBLIC SECTOR PLAN - An employment pension plan offered by an employer in the public sector, covering civil servants, teachers, municipal employees, etc.

REGISTERED PENSION PLAN - An employment pension plan accepted for registration for tax purposes under the Income Tax Act, and/or for registration under applicable pension benefits legislation.

REGISTERED RETIREMENT INCOME FUND (RRIF) - Form of investment vehicle permitted under the Income Tax Act for funds an individual has accumulated in a Registered Retirement Savings Plan.

REGISTERED RETIREMENT SAVINGS PLAN (RRSP) - A personal retirement savings plan, defined in the Income Tax Act, under which tax is deferred on contributions and investment income until received as annuity payments.

REMARRIAGE CLAUSE - Provision for a surviving spouse's pension to be discontinued if he or she remarries; may include provision for renewal of payments if that marriage is later terminated.

REPLACEMENT INCOME - Regular payments (e.g., a pension) from a programme whose purpose is to replace income which the individual previously obtained from employment. (See Net replacement ratio.)

RETIRED LIVES FUND - In a trustee pension plan, a segregated group of assets representing the value of all benefits for those who have retired under the plan; excess earnings of these assets may be available to increase the amounts of monthly pension payable. (See also Participating annuity.)

RETIREMENT - Withdrawal from the active work-force because of age; may also be used in the sense of permanent withdrawal from the labour force for any reason, including disability.

RETIREMENT INCOME - Income from pensions and other sources, to which a retired person is entitled. Term may include both private and public pension payments, income from personal savings, government income supplements, and imputed income (e.g., free health insurance premiums.)

RETIREMENT TEST - Under a government programme or employment pension plan, a method of determining that a person has actually left the labour force and so qualifies for a specified pension or supplement.

SALARY SCALE - In pension costing, an estimate of future increases in wages and salaries of plan members whose benefits are based on earnings.

SEGREGATED FUND - Assets of a pension plan held by an insurance company for investment management only; funds are segregated from assets of the insurance company, and principal and interest are not guaranteed. To be distinguished from insured pension plan and deposit administration. (See also Trusteed pension plan.)

SINGLE PREMIUM FUNDING - Funding method in which current service cost is the present value of benefits provided under the plan for service during the current year. To be distinguished from level premium funding. (See also Current service cost.)

SOCIAL SECURITY - Term used to refer to a system of government programmes providing for income security of individuals, especially the aged, disabled, etc. In Canada, the term as applied to the elderly usually includes Old Age Security, income supplements (federal and provincial), the Canada and Quebec Pension Plans; may include other income support programmes.

SOLVENCY - In a pension plan, the ability of the plan to meet its present and future obligations; the adequacy of provisions for funding.

SPECIAL RETIREMENT - Term used in some pension plans for conditions under which an employee may retire, usually with a normal pension, in certain exceptional circumstances, e.g., job redundancy. Term may be used in the broader sense of any provision for retirement on a normal (unreduced) pension earlier than normal retirement age.

SPLIT FUNDING - Practice whereby a non-insured pension plan purchases an annuity (i.e., an insured benefit) for each member at the time of retirement, instead of making monthly payments directly from the pension fund.

SPOUSE'S ALLOWANCE - Under the Old Age Security Act, a monthly payment, based on family income, payable to the spouse aged 60 to 65 of an OAS pensioner. (See also Old Age Security; Guaranteed Income Supplement; Guaranteed Annual Income System (GAINS); Income test.)

STACKING - Term sometimes used for a pension design in which there is no integration: that is, plan contributions and benefits are not related to those in any government pension programme. (See Integration.)

STEP-RATE INTEGRATION - Provision in a pension plan for different rates of contributions and benefit accrual in respect of an employee's earnings below and above the YMPE (earnings ceiling) of the Canada/Quebec Pension Plan.

STRAIGHT LIFE ANNUITY - An annuity which is payable only during the lifetime of the annuitant, i.e., is not guaranteed to be paid for a minimum period and no part of which is payable to another person after the annuitant's death. (See also Optional form of benefit.)

SURVIVING SPOUSE'S PENSION - A monthly benefit payable under a pension plan to the surviving spouse of a deceased employee or pensioner; usually refers to a benefit other than payments under a guaranteed annuity or joint and survivor annuity.

SURVIVOR BENEFIT - Generally, any benefit payable under a pension plan to the surviving spouse or dependent of a plan member who dies before or after retirement. (See also Surviving spouse's pension; Guaranteed annuity; Joint and survivor annuity; Death benefit.)

TAX-BACK - Term commonly used for a reduction in amount of a person's income supplement because of income (of the individual or family) from other sources.

TAX CREDIT - Provision for a reduction of income tax payable (not a deduction from taxable income) by an amount of other taxes payable or a portion of housing or other expenses of the taxpayer; e.g., Ontario Tax Credits. Tax credit is said to be "refundable" if it is payable to a person with no taxable income.

TAX-DEDUCTIBLE - Refers to a type or amount of income which may be deducted from a person's total income in computing net or taxable income; e.g., registered pension plan contributions; pension income (up to \$1,000 per year). (See also Tax credit.)

TAX DEFERRAL - Provision in the Income Tax Act whereby certain pension and similar contributions are tax-deductible and employer contributions and investment income are not included in a member's current taxable income; but benefit payments are considered income for tax purposes in the year in which they are received.

TAX SHELTER - Generally, any savings arrangement entitled to tax deferral and therefore involving the probability that payments when received by the individual will be taxable at a lower rate than would apply in the year the income was first received or credited.

TERMINAL FUNDING - Method of funding whereby monies required to provide a member's pension are paid into the fund or used to purchase an annuity only at the time of retirement, and not regularly over the period of employment. This method is not permitted under pension benefits legislation.

TERMINATION OF EMPLOYMENT - Severance of the employment relationship for any reason other than death or retirement.

TERMINATION RATES - In pension costing, the observed or estimated rate of termination of employment for reasons other than death and retirement.

TRUST AGREEMENT (OR DEED) - An agreement setting out the duties and responsibilities of a trustee or trustees under a pension plan.

TRUSTEED PENSION PLAN - An employment pension plan whose funds are held and invested by trustees, and the plan sponsor is responsible for making sufficient contributions to maintain the plan's solvency. Benefits are not insured except to the extent annuities are purchased. (See Split funding.)

UNDERWRITER - Anyone who undertakes to provide future payments (e.g., pensions) in certain specified circumstances, in return for premiums paid by or on behalf of those who may become entitled to benefits; usually refers to an insurance company. (See Insured pension plan.)

UNFUNDED LIABILITY (UNFUNDED ACTUARIAL LIABILITY) - Generally, any amount by which the assets of a pension plan are less than its liabilities. An initial unfunded liability exists when benefits are created in respect of prior service and not provided for in current service contributions. (See also Experience deficiency; Funding.)

UNION PENSION PLAN - Plan sponsored by a trade union; usually refers to a dues-paid plan (see definition) but may mean a plan financed by employer contributions. (See Multi-employer plan.)

UNIT BENEFIT FORMULA - Any defined benefit formula providing a benefit credit expressed as a percentage of a member's earnings for each year of service. To be distinguished from flat benefit formula. (See Best earnings formula; Career average formula; Final average (earnings) formula; Final earnings formula.)

UPDATING (BENEFITS) - Term applied to the occasional review and increase of accrued benefits to reflect rising wage levels where the plan does not provide for automatic improvement as in a final (earnings) formula.

VARIABLE ANNUITY - A pension whose amount varies according to the market value of the fund, usually invested in common stocks. In theory, this feature may compensate the retiree for the effects of inflation.

VESTING - The right of an employee on termination of employment, to part or all of his or her accrued pension; usually requires locking-in of employee's contributions. Vesting is usually in the form of a deferred annuity commencing at retirement age. Vesting is said to be contingent or conditional if employee has the option of cash withdrawal. Statutory vesting occurs when employee meets the age and/or service conditions set out in pension benefits legislation (in Ontario currently, age 45 and 10 years' service or plan membership) and applies to benefits

accrued after a specified date (January 1, 1965 in Ontario). Cash vesting is a return of both employer and employee contributions if not restricted by statutory vesting.

WAGE INDEXING - A method of indexing based on movements in average wages and salaries.

WAITING PERIOD - Period of service with an employer before an employee fulfills eligibility requirements for membership in a pension plan.

YEAR'S MAXIMUM PENSIONABLE EARNINGS (YMPE) - Term used in Canada Pension Plan, often referred to as the earnings ceiling: the maximum amount of annual earnings from employment on which CPP contributions and benefits are calculated. YMPE is changed each year according to a formula based on average wage levels.

Appendix 5: THE FUND C APPROACH

The federal Department of Insurance is responsible for preparing Statutory Actuarial Reports of the CPP. These reports examine current funding and contribution rates and future financial obligations of the plan. The Actuarial Report upon which the Royal Commission based recommendation 27 was No. 6 and in that report were suggestions for three different CPP funding patterns. The elements that distinguish the three different funding patterns are, chiefly, contribution rates and the rate at which money flows out of the CPP fund.

These funding recommendations are important because the Royal Commission has identified three critical years for the CPP, assuming that the contribution rate is unchanged. The first critical year is 1986. In that year benefits exceed contributions. But CPP will continue to have a surplus because of its interest earnings. Elsewhere in this report 1986 has been referred to as the cross-over point. The second critical year is 1991, during which the rate at which benefits are paid exceeds contribution rates and the rate at which interest is earned on the CPP's funds. In that year the provinces would no longer be able to borrow from CPP. The third critical year is 2001 when benefits exceed contributions and interest earned on CPP funds. The CPP's fund would then be exhausted and monies for pensions would have to be drawn from general government revenue or some other source.

The scenario outlined above has been referred to as the Fund A projection. The Fund C projection is the same as Fund A's in its initial stages. But when benefits begin to exceed contributions and interest earnings, the contribution rate is raised in the Fund C projection so as to match the flow of money into and out of the fund.

The Royal Commission investigated these and other funding projections, including ones to fully fund the CPP. All but the Fund C approach were found to be unacceptable for a variety of reasons. In one funding case the exhaustion of the CPP's fund would force government to draw on other revenue resources. Pensions would then be competing, in effect, for money along with every other government programme. Pensions could be "out-competed" or the promise of future pensions could go unfilled. In another case the contribution rate would rise to an unacceptably high level (12 1/2%) and could create a CPP fund of \$9 trillion (Royal Commission, Vol. 5, pages 89 and 95).

The choice of the Fund C approach was not made only on the basis that it avoided unacceptable funding extremes. The Fund C approach, according to the Royal Commission, appears to be the best way to finance the CPP, given the most likely trends in Canada's fertility rate, economic growth, and real return on CPP fund assets. The CPP fund would continue to grow until 1991, when it would reach a value of \$36.1 billion and the fund would remain at that level, according to the Royal Commission, in perpetuity. By 2000 the \$36.1 billion would represent 1.6 times the annual benefit payout. The contribution rate would climb from its present 3.6% to 5% in 2000, to 6% in 2010, to 8% in 2020, and to 9% in 2030. Thereafter the rate would decline until after 2050. In a separate study the Royal Commission also found that the Fund C approach did not create excessive intergenerational subsidies.

Appendix 6: DISSENTING OPINION OF JOHN WILLIAMS,
M.P.P.; TERRY JONES, M.P.P.; ANDY BRANDT,
M.P.P.: FROM THE SELECT COMMITTEE'S
INTERIM REPORT

The above named Progressive Conservative members of the Select Committee on Pensions submit the following dissent with regard to the second recommendation set out under the section entitled "Government Retirement Income Programmes" on page number two of the First Report 1981. Said recommendation reads as follows:

that until changes can be made to increase the GIS as recommended, the Government of Ontario should increase without delay the payment for GAINS to bring single persons up to the adequacy level of "available income" recommended for the year in which the increase is made.

This recommendation mirrors recommendation 21 of the Royal Commission report which reads as follows:

Until changes can be made to increase the GIS as recommended, the Government of Ontario should increase without delay the payment for GAINS to bring single persons up to the adequacy level of "available income" recommended for the year in which the increase is made. (January 1980 "available income" adequacy levels: single persons, \$447 monthly; married couple, \$767 monthly).

For this reason, we also dissent from the statement in the aforesaid section of the Report which states that "The Committee endorses the intent of recommendation(s)...21 of the Royal Commission Report."

Further, we see inconsistency in the views expressed in the aforesaid section of the Report leading up to the recommendation in question.

The committee as a whole expressed a wish "to impress on both levels of government the urgent need for immediate action to aid the elderly single", and was of the collective opinion "that an integrated federal and provincial approach should be taken to address this problem", the area being "too important to become a contentious jurisdictional dispute".

While having arrived at that conclusion, the committee cited the fact that: "The immediate vehicle for the province to increase the guaranteed income of the single retireds would be to increase the province's guarantee programme, GAINS." From that statement of fact emerges a suggestion in the Report that "the Province could then negotiate with the Federal Government to increase its programme in an effort to offset the additional provincial costs", implying that the Province should first act unilaterally and thereafter enter into negotiations with the Federal authorities.

At no time during the Committee's deliberations on this point was there an agreement as to the sequential consequences that should flow upon identification of the initiatives exclusively available to the Provincial Government.

Further, at no time during the hearings of the Committee to-date were the financial ramifications and consequences of implementing recommendation 21 of the Royal Commission Report reviewed and assessed. The realities as to the financial capability of the Province to accommodate such a unilateral initiative were not determined on the basis of any informed analysis of the Province's financial resources.

Under the circumstances, we are of the opinion that the goals and objectives of this section of the Report can only be realistically achieved by concurrent and joint initiatives of the Federal and Provincial Government in the manner expressed in the first recommendation of this section of the Report.

Appendix 7: DISSENTING OPINION OF
NEW DEMOCRATIC PARTY MEMBERS ON THE SELECT COMMITTEE

In 1979 there were 208,000 senior citizens in Ontario living in poverty: nearly 25% of the total population over 65. These figures, released late last fall by Statistics Canada, spotlight the nature and urgency of the pension crisis facing our society.

The New Democratic Party members of the Select Committee dissent from many of the principal recommendations of the Select Committee report.¹ The Conservative-Liberal majority on the Committee have placed their faith in short-term reforms to the private pension industry, and have rejected the one path which leads to decent pensions for all Canadians: expansion of both the Canada Pension Plan and the Old Age Security programme. By rejecting expansion of our public pension system, the Liberal-Conservative majority has placed the overwhelming roadblock of Ontario's opposition in the way of genuine pension reform. The failure of the Select Committee to face reality leaves our country saddled with the most inadequate pension system in the Western industrial world. Fully 53% of retired Canadians depend on welfare. And the Select Committee's tinkering with the worst abuses of the private pension industry have failed completely to address the two problems at the heart of our pension crisis. These are, first, the pathetic lack of coverage by private sector pensions, and second the gross inadequacy of existing pension benefit levels - now compounded by the ravages of inflation.

The Royal Commission itself identified the scant numbers of private-sector employees covered by pension plans as a critical problem.² They found that in 1976, only 39.1 percent of Ontario's

¹The NDP members of the Select Committee, Bob Mackenzie and Ross McClellan, dissented from the following recommendations: 3, 4, 5, 15, 16, 17, 19, 23, 25, 27, 28, 31, 33, 34, 35, 36, 106, 129.

²Royal Commission, Report, Vol. VIII, pp. 96-120.

private sector workers were enrolled in pension plans. Most distressing, only 22 percent of women workers in the private sector had pension coverage. Altogether, 2,101,000 of Ontario's workers in 1976 had no employer-sponsored pension plan. These citizens are totally reliant upon the public pension system for economic survival after age 65. (By contrast, 96% of all workers in Ontario are covered by CPP).

The problems do not stop at the lack of coverage. Even the fortunate minority of private sector workers who are members of a company plan face an uncertain future. Our archaic vesting provisions - the 45 and 10 rule - mean that only 15 to 20% of contributors to private plans ever get to collect any pension benefits at all. The lack of portability has crippled private sector pensions. The Select Committee's recommendations on vesting, termination rights and portability are important and significant reforms and we support them. But it will take a full generation before the effects of these reforms (assuming they are implemented) show up in the form of adequate retirement pensions. And even here, it is essential to remember that occupational pension schemes will only provide adequate pension benefits to workers who are well-paid to start with. Low-wage earners simply cannot afford the cost of an adequate private pension plan; they will remain essentially uncovered, as will homemakers. And those who speak of excluding low-wage earners and homemakers are talking about excluding women from pension coverage.

It is precisely this approach which the proponents of Private Pension reliance are advocating and for the New Democrats it is unacceptable. A long list of business apologists came before the Select Committee, arguing that coverage and adequacy were not real problems if you eliminated people who should not be covered in the first place.

The New Democratic Committee members were dismayed that the Ministry of Treasury and Economics adopted this analysis. In their brief dated February 10, 1982 (Exhibit 210) the Treasury weeded out 38% of the workforce and by eliminating these pension misfits, reached an

optimal coverage level of 62.26% of the workforce. This solution consigns a huge minority of our people, composed mainly of women, to a permanent reliance upon welfare to meet their retirement income needs.

It means that a two-class retirement income system will be instituted. First-class pension benefits will be awarded to those lucky enough to enjoy well-paying jobs throughout their lifetime, but second-class welfare programmes will be the lot of full-time homemakers, marginal workers and low-income wage earners. As an alternative to the Select Committee's short-sighted failure of will, the New Democratic Party members of the Committee wish to put forward a far-reaching proposal for fundamental pension reform.

(I) Public, Not Private

The New Democrats recommend that the private pension industry be displaced from its dominant role in providing retirement income for workers by radically expanding the public pension system. The continued reliance on the private pension industry means consigning the majority of elderly Canadians to live on welfare programs, which has meant, historically, at or below the poverty line. Our alternative commits the whole society to guarantee the basic right of each individual to a secure flow of post-retirement income, ensuring a decent standard of living.

(II) Creating a National Pension Plan Through an Expanded CPP

The New Democratic Committee members recommend the creation of a comprehensive National Pension Plan which would consolidate the existing Old Age Security program and the Canada Pension Plan.

This new National Pension Plan would consist of two components:

- * A Universal Benefit similar in principle to the present Old Age Security flat benefit, to be set at 40% of the Average Industrial Wage.
- * A Wage and Salary Replacement benefit which would provide a maximum entitlement of 35% of the Average Industrial Wage.

(A) The Universal Benefit will provide a minimum standard of decency to all retired Canadians.

At this time the universal flat benefit component of our pension system is represented by the Old Age Security benefit. OAS payments are approximately 14% of the Average Industrial Wage. These benefits, being universal, are paid to all Canadians over age 65 regardless of their income or work history. The Liberal Government in Ottawa has allowed the value of this universal, flat benefit to fall relative to the Average Industrial Wage. Because the relative weight of the OAS benefit has fallen it has been necessary to introduce income tested supplements. In simpler language, this means welfare for senior citizens. The federal Guaranteed Income Supplement and the Ontario Guaranteed Annual Income Supplement raise the OAS floor from 14% to approximately 17% of the Average Industrial Wage. The New Democrats regard these income floors as unconscionably low.

The New Democrats believe that it is the function of a universal pension benefit to ensure that every retired Canadian can live at a minimum standard of decency without having to draw on welfare supplements like GIS or GAINS.

The National Pension Plan advocated by the New Democrats would have a substantial universal, flat benefit component. This universal pension set at 40% of the Average Industrial Wage would be paid to all retired Canadians in the same manner as the present Old Age Security pension. Benefits would be indexed to increases in the Average Industrial Wage. The means to achieve these objectives is through an expansion of the existing Canada Pension Plan, including the above minimum benefit, amendment of the eligibility requirements to include all persons in Canada, and provision for a future Government contribution from general tax revenues to ensure adequate funding for the minimum benefit.

By this measure, New Democrats would eliminate the need for income tested supplements. The income test would be replaced by an adequate minimum pension guaranteed to all retired Canadians as a matter of right.

(B) The Wage and Salary Benefit is the second feature of the National Pension Plan proposal and it would provide pensions related to employment. The earnings related Canada Pension Plan now rests on the foundation of the universal benefits paid under the Old Age Security Act. At this time the maximum entitlement under the Canada Pension Plan is approximately 18% of the Average Industrial Wage. Even when the CPP matures, the maximum entitlement will be less than 25% of the Average Industrial Wage. At present, therefore, maximum entitlement under both the Old Age Security Act and the Canada Pension Plan is less than the 40% minimum that New Democrats recommend be established.

Unlike the Old Age Security Act which is administered by the federal government the Canada Pension Plan is controlled by the participating provinces in conjunction with the federal government. Because of its size, Ontario has veto power over all proposals to change the CPP.

Both the existing Canada Pension Plan and most earnings-related plans sponsored by employers provide for wage replacement in proportion to pre-retirement earnings. Long spells of unemployment or under-employment thus penalize a worker even in retirement.

The New Democrats would depart from the rule of strict proportionality in determining earnings-related pension benefits by advocating a benefit formula which replaces a progressively greater proportion of pre-retirement earnings below the Average Industrial Wage.

(III) Normal Retirement:

The designation of 65 as the age at which normal pension benefits should commence ignores the compelling moral argument for earlier retirement for workers whose occupations adversely affect their health.

The New Democrats recommend that unreduced pension benefits be available to all workers in any occupation where it can be established that there is a reasonable chance that any worker's health could be impaired by continuing to work past age 60 in that occupation. Such benefits would be integrated with the benefits paid under a universal disability insurance programme. Furthermore, provisions would be instituted on a phased basis which would give all persons the freedom to choose early retirement with a corresponding amendment to the benefits received.

(IV) Financing Pension Reform:

The essence of pension finance is the transfer of purchasing power. Financing pension reform is therefore properly understood as an aspect of tax policy: The ideologues of the economic right seek to make the financing of pensions subordinate to the accumulation of capital. Such thinking confuses pension policy with social savings policy.

The New Democratic Committee members support the conclusions of the Economic Council of Canada and even the Ontario Royal Commission on Pensions that public pensions are properly financed by taxes on current social income rather than by accumulating large pools of capital.

The New Democrats believe that the Universal Benefit under the National Pension Plan should be guaranteed by the federal government from its tax base in the same manner as the Old Age Security pension is financed from the general tax revenues of the federal government.

Furthermore, high income Canadians will be taxed by way of a special surcharge on the Universal Benefit.

The Wage and Salary Replacement Benefit, however, is an earnings related system and should be financed in a manner which reflects employment earnings. Therefore, the cost of the Wage and Salary Replacement Benefit should be financed in the main through payroll contributions by employers and employees. Because payroll taxes are regressive if the rules of proportionality and ceiling contributions are adhered to, the New Democrats advocate a system of payroll contributions such that the percentage of contributions rises with income. The New Democrats would also exempt from payroll contributions that portion of income up to 1/3 of the Average Industrial Wage.

The mechanism of taxing current social income to finance current pension benefits is prone to unstable contribution rates since the ratio of pension benefits to social income is not constant. Therefore, that portion of the National Pension Plan which is financed through payroll contributions will typically have contribution rates set at a level to provide some margin. The surpluses which arise from this need for stability in contribution rates will continue to be lent to the provinces in the same manner as surpluses in the present Canada Pension Plan are lent to the provinces.

The New Democrats recommend that the government of Ontario utilize surplus funds made available through the National Pension Plan to advance the implementation of progressive social and economic policies, including an industrial strategy for Ontario.

(V) Pension Reform and Women:

Our present pension system consigns the vast majority of elderly women to live on incomes below the poverty line. Many women who are now over age 65 have never been in the work force or have had only a marginal attachment to it. For this reason even retroactive

improvements to the earnings-related Canada Pension Plan - such as, for example, an immediate doubling of benefits - would fail to address the unconscionable economic position of many elderly women.

Although an increasing proportion of women now participate in the labour force, the position of women in retirement will still compare unfavourably to that of men. There are three reasons for this disparity. First: because a large proportion of working women tend to leave the work force to raise small children or to care for elderly or handicapped family members, careers are interrupted. The Conservative government in Ontario has used its veto power over changes to the Canada Pension Plan to prevent any amendments that would permit a period of withdrawal without loss of future entitlement. Second: only a small minority of women are covered by the employer-based pension plans marketed by the private pension industry. And third: the disadvantages of women in the labour market are reproduced and magnified by the pension system.

The New Democrats believe that only a radical expansion of the universal, flat benefit component of our pension system can eliminate the injustice which is imposed on elderly women. It is this commitment to a radical expansion of universal, flat benefits which distinguishes the Ontario New Democratic Party from many of the advocates of pension reform who would leave women behind or deal with their problems through ad hoc or income tested measures.

The New Democrats advocate amendments to the existing Canada Pension Plan which permit any working person to take reasonable time out of the work force for the purpose of raising small children or caring for elderly or handicapped family members without thereby suffering any loss in entitlement to future benefits.

The New Democrats recommend amendments to the Ontario Pension Benefits Act to require an automatic survivor's benefit of at least 60% of the full benefit unless both spouses waived this provision.

(VI) Pension Reform and Tax Reform:

Under the concept of pensions as deferred wages, workers' pension contributions are viewed as income set aside for future use. The current principle of taxation is that such contributions may be deducted from income and that subsequent pension benefits in excess of \$1,000 will be taxed as regular income. But because of the progressive or graduated character of the income tax system, deductions give greater tax relief to higher income earners than to lower income earners.

The New Democrats recommend that the system of income tax deductions for pension contributions be replaced by a system of tax credits.

They further recommend that contributions to RRSPs and deferred profit-sharing plans be subject to the same form of tax credit treatment to replace income tax deductibility.

(VII) The Age of Retirement:

There is no statute that requires retirement at age 65. However, many employers require retirement at age 65. Trade unions have typically negotiated pension plans which commence normal benefits at age 65; such a practice should not be confused with requiring retirement at age 65.

Those who advocate amendments to the Employment Standards Act or to the Human Rights Code prohibiting employers from requiring employees to retire at age 65 frequently cite the lengthening of working years as a means of reducing the costs of pensions to governments and to employers. In practice, it is not voluntary retirement which is advocated but mandatory work.

The prohibition of mandatory retirement is often a conservative response to the demands for a first-class pension system.

The NDP Committee members believe that the question of mandatory retirement age cannot be separated from the question of the income which will be available to working people when they retire. When and only when adequate public pensions are available as a matter of right should the government in Ontario move to prohibit mandatory retirement.

(VII) The Public Sector:

The New Democrats on the Committee dissent from the majority view that certain public sector workers should be denied the right to bargain over pension matters. There can be no possible justification for such a patently unfair situation, particularly since the Select Committee has endorsed the principle that pensions are deferred wages.

The New Democrats recommend that the Crown Employees Collective Bargaining Act, the Colleges Collective Bargaining Act and the Education Relations Act be amended to permit full collective bargaining of pension questions.

Respectfully submitted

Bob Mackenzie
MPP Hamilton East

Ross McClella
MPP Bellwoods

Appendix 8: GROUPS, ORGANIZATIONS AND INDIVIDUALS

APPEARING BEFORE THE SELECT COMMITTEE

Trade Unions, Employee Associations and Retirees Organizations

Canadian Labour Congress
 Canadian U.A.W. Council
 Canadian Union of Public Employees (Ontario Division)
 Durham Region Police Association
 Federation of Engineering and Scientific Associations
 Federation of Women Teachers Associations of Ontario
 Hydro Employee Association for Recognition of Total Service (HEARTS)
 INDEX NOW
 International Brotherhood of Electrical Workers, Local 105
 Management Employee Group, Ministry of Transportation and Communications
 Ontario Association of Education Administrative Officials
 Ontario Association of School Business Officials
 Ontario Coalition for Pension Reform
 Ontario Federation of Labour
 Ontario Municipal Retirees' Association
 Ontario Nurses Association
 Ontario Public Service Employees Union
 Ontario Secondary School Teachers Federation
 Ontario Teachers Federation
 Ontario Teachers Retirement Village (Kitchener) Corp.
 Police Association of Ontario
 Sheet Metal Workers International Union, Local 392

Business and Employer Associations

Automotive Parts Manufacturers Association of Canada
 Board of Trade of Metropolitan Toronto
 Business Council on National Issues
 Canadian Chamber of Commerce
 Canadian Federation of Independent Business
 Canadian Life and Health Insurance Association
 Canadian Manufacturers Association
 Canadian Securities Industry Pension Reform Committee
 Dominion Foundaries and Steel Ltd.
 Financial Executives Institute Canada
 Ford Motor Company of Canada Ltd.
 Housser and Co., Ltd.
 Life Underwriters Association of Canada
 Mu-Cana Investment Counselling Ltd.
 Ontario Chamber of Commerce
 Ontario Hospital Association
 Ottawa-Carleton Board of Trade
 Profit Sharing Council of Canada
 Retail Council of Canada

The Wyatt Co.
 Towers, Perrin, Forster and Crosby
 Trust Companies Association of Canada
 William B. Mercer Ltd.

Government, Social Service Agencies and Others

Association of Canadian Pension Management
 Association of Jewish Seniors
 Canadian Advisory Council on Status of Women
 Canadian Co-ordinating Committee on Multi-Employer Pension Plans
 Canadian Institute of Actuaries
 Canadian Institute of Religion and Gerontology
 Canadian Pension Conference
 Council on Aging (Ottawa-Carleton)
 Development Education in Action
 Family Services Association of Metropolitan Toronto
 Honourable Frank Miller, MPP
 New Brunswick Section, Network for Pension Reform for Women
 Ontario Advisory Council on Senior Citizens
 Ontario Committee on the Status of Women
 Ontario Municipal Employees Retirement Board
 Oshawa Public Utilities Commission
 Pension Commission of Ontario
 Social Planning Council of Metropolitan Toronto
 Y.W.C.A. of Metropolitan Toronto

Individuals

Mr. Len Adams, Barrie
 Mr. Edward L. Archer, Toronto
 Ms. Margaret Arlein, London
 Ms. Cheryl A. Ballantine, Toronto
 Mr. Michael Beswick, Toronto
 Mr. Charles Billing, Niagara Falls
 Mrs. Beatrice Brown, Brantford
 Professor Robert L. Brown, Department of Statistics, University of
 Waterloo
 Mr. James L. Clare, Toronto
 M. Claude Castonguay, Quebec City
 Ms. Louise Dulude, Ottawa
 Mr. David French, Toronto
 Mr. Jim Gordon, MPP, Sudbury
 Mr. Norman Hogg, Ottawa
 Mr. J.J.H. Hunt, Toronto
 Mr. Frederick A. Istl, Islington
 Ms Reva Landau, Toronto
 Mr. E.T. Linnel, Vancouver
 Mr. R.K. McClelland, Sault Ste. Marie

Dr. A. Donald Misener, Picton

Professor James Pesando, Institute of Policy Analysis, University of
Toronto

Mr. William H. Pudas, Thunder Bay

Mr. Ross K. Rigney, Toronto

Mrs. Jennie Tyner, Yarker

Mr. J.L. Wolfson, Ottawa

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